

TULARE COUNTY ASSESSMENT PRACTICES SURVEY

MAY 2008

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May 7, 2008

TO COUNTY ASSESSORS:

No. 2008/029

TULARE COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Tulare County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (Board) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the Board 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 Gregory B. Hardcastle, Tulare County Assessor/Clerk-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 Tulare County Grand Jury and the Assessment Appeals Board.

Fieldwork for this survey was performed by the Board's County-Assessed Properties Division from March through April 2006. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:ps
Enclosure

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INTRODUCTION

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

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (Board) periodically reviews the practices and procedures of (surveys) every county assessor's office. This report reflects the Board's findings in its current survey of the Tulare 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 Board, the Senate and Assembly, the Tulare County Grand Jury, and the 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 Gregory B. Hardcastle, Tulare County Assessor/Clerk-Recorder,¹ elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendixes.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys* at p. 2) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

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

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

In addition, pursuant to Revenue and Taxation Code² section 75.60, the Board 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 Tulare County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contacts with officials in other public agencies in Tulare 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 371.³

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

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

³ All rule references are to sections of the 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 Tulare County Assessment Practices Survey, we made 32 recommendations to address problems in the assessor's policies and procedures. The assessor fully implemented 19 of the recommended changes. Three recommendations were not repeated because of their minimal impact on the resulting assessments. The remaining recommendations are repeated, some in combined form, in this report.

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

The assessor is doing a satisfactory job in managing many portions of the administration program, including budget and staffing, appraiser certification, and the low-value exemption. It should be noted that the Tulare County assessment roll value experienced an increase of over 30 percent between fiscal years 2001-02 and 2005-06.

In the area of real property assessment, the assessor has effective programs for the handling of change in ownership, Timberland Production Zone property, leasehold improvements, mineral properties, and pipeline rights-of-way.

Noteworthy is the cooperation between the assessors of Tulare County and Kings County in collecting and sharing data to enhance their California Land Conservation Act (CLCA) assessment programs. This cooperative effort has proven to be a vital resource for valuing agricultural properties in both counties, as they are very similar in topography. They share data relating to capitalization rates, land rents, production averages, water district rates, and irrigation costs. The Tulare County Assessor further integrates this data into his computer system via a variety of spreadsheets, transforming all collected information into a format that enhances the CLCA assessment program.

Overall, the business property staff is doing an excellent job. The overall quality of work performed by the Audit Services Section is very good. The assessor is current in his mandatory audits, and properly processes the business property tax statements. The assessor has an excellent leased equipment program that tracks the ownership of the leased equipment from the lessor to the lessee.

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

RECOMMENDATION 1: Request taxpayers send appeal withdrawal letters directly to the clerk of the assessment appeals board.13

RECOMMENDATION 2: Obtain fire reports from local fire departments to discover property damaged or destroyed by misfortune or calamity.14

RECOMMENDATION 3: Improve the welfare exemption program by: (1) performing field inspections of all property for which the welfare exemption is claimed, and (2) sending written notice when denying a welfare exemption claim.18

RECOMMENDATION 4: Improve the new construction program by: (1) obtaining permits for new construction from all issuing agencies, and (2) assessing all new construction not exempt by statute or ordinance.....26

RECOMMENDATION 5: Revise the notice informing assessesees of an increase in a property's full cash value to include the information required by section 619(c).....27

RECOMMENDATION 6: Improve the CLCA program by: (1) assessing vineyard trellising on lands under CLCA contract as unrestricted improvements, (2) issuing supplemental assessments when the construction of trellising is completed, (3) assessing restricted land improvements on CLCA properties pursuant to section 423, and (4) developing appropriate risk rate component for CLCA properties.30

RECOMMENDATION 7: Assess all taxable possessory interests at the fairgrounds.33

RECOMMENDATION 8: Improve the water company assessment program by: (1) reviewing the lists of water systems from regulatory agencies to discover assessable water company properties, and (2) obtaining the articles of incorporation and other relevant property tax documents from each mutual water company.36

RECOMMENDATION 9: Modify manufactured home assessment procedures by: (1) using the correct edition of the manufactured home valuation guides and (2) assessing manufactured homes at the lesser of the factored base year value or the current market value.....44

RESULTS OF 2002 SURVEY

Disaster Relief

We recommended the assessor request the board of supervisors to update the disaster relief ordinance to conform to current law. The assessor has implemented this recommendation; the current ordinance contains the January 1 lien date and replaces references to section 155.13 with section 170.

Assessment Roll Changes

We recommended the assessor revise the *Notice of Proposed Escape Assessment* to include all the information required by section 531.8. He has implemented this recommendation.

Assessment Forms

We recommended the assessor: (1) timely submit Board-prescribed form checklists, and (2) use only approved rearranged Board-prescribed forms. The assessor has implemented these recommendations.

Change in Ownership

We recommended the assessor retroactively adjust new base year values by the inflation factor for reappraisable events occurring between the lien date and June 30. The assessor's current system correctly applies the inflation factor to changes in ownership that have occurred between the lien date and June 30. Since the impact of any resulting escape assessment is minimal, we do not repeat this recommendation.

New Construction

We recommended the assessor: (1) obtain permits for new construction from all issuing agencies, and (2) document new construction assessments. The assessor still does not obtain permits from the Tulare County Health and Human Services Agency. Therefore, the first recommendation is repeated in the current survey. The assessor implemented the second recommendation.

Declines in Value

We recommended the assessor revise the notice informing assesseees of an increase in a property's full cash value to include the information required by section 619(c). The assessor has not implemented this recommendation; therefore, it will be repeated.

Supplemental Assessments

We recommended the assessor train staff to correctly calculate supplemental assessments. The assessor has not implemented this recommendation; there are still problems in calculating certain supplemental assessments. Because these problems are within the CLCA program, we will repeat this recommendation in our review of that particular program.

California Land Conservation Act (CLCA) Properties

We recommended the assessor: (1) assess vineyard trellising on lands under CLCA contract as unrestricted improvements, (2) issue supplemental assessments at the completion of the construction of nonliving improvements on open-space properties pursuant to section 75.14, (3) issue supplemental assessments only upon the completion of new construction on open-space properties as required by section 75.14, (4) assess restricted land improvements on open-space properties in accordance with section 423, (5) develop appropriate risk components for CLCA properties, (6) classify wind machines as personal property or fixtures, (7) allow for a return of investment in irrigation wells, and (8) solicit compatible use income information on all CLCA parcels.

We found that the assessor has implemented recommendations (3), (6), (7), and (8), or that no evidence exists that his practices relating to those recommendations were in error. However, other CLCA procedures remain unchanged; therefore, the remaining recommendations are repeated in this survey.

Taxable Government-Owned Properties

We recommended the assessor review all properties owned by government agencies but located outside those agencies' boundaries. The assessor has implemented this recommendation.

Timberland Production Zone (TPZ) Properties

We recommended the assessor: (1) request from taxpayers compatible use information on TPZ parcels, and (2) identify TPZ parcels on the assessment roll as required by section 433. The assessor has implemented these recommendations.

Taxable Possessory Interests

We recommended the assessor: (1) apply the annual inflation factor to all values pursuant to section 51(a)(1), and (2) revalue all taxable possessory interests at the end of the anticipated term of possession used by the assessor to value those interests. He has implemented both recommendations.

Water Company Properties

We recommended the assessor: (1) review lists of water systems from regulating agencies to discover assessable water company properties, (2) obtain annual California Public Utility Commission (CPUC) reports from all regulated water companies, and (3) obtain the articles of incorporation and other relevant property tax documents from each mutual water company. The assessor now obtains CPUC reports from all regulated water companies; however, he neither receives nor requests water inspection reports from the Tulare County Health and Human Services Agency or the State Department of Health Services, Division of Drinking Water and Environmental Management, nor does he obtain any documents from mutual water companies. Therefore, we are repeating those recommendations.

Mineral Properties

We recommended the assessor document mining property appraisals. The assessor has implemented this recommendation.

Audit Program

We recommended the assessor bring the mandatory audit program to current status. The assessor's mandatory audit program is now in compliance.

Business Equipment Valuation

We recommended the assessor use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended when valuing older machinery and equipment. We found that the assessor has implemented this recommendation by adopting the California Assessors' Association's (CAA) recommended minimum percent good factor components.

Manufactured Homes

We recommended the assessor: (1) classify manufactured homes as personal property, and (2) use the correct edition of the manufactured home valuation guides. The assessor has not implemented either recommendation. However, we did not find any assessment problems resulting from the misclassification, and, therefore, we will not repeat it. We will, however, repeat the second recommendation in this survey.

Vessels

We recommended the assessor annually assess vessels at market value. The assessor still has no substantiation for using a pre-determined depreciation rate when assessing vessels. However, the Board is currently in the process of developing valuation tables to determine market values for vessels on an annual basis, and, until this process is completed, we will not repeat this recommendation. We also recommended the assessor apply penalties for late-filed vessel reports only when using Board-prescribed forms. The assessor has ceased applying penalties when using non-Board-prescribed vessel forms.

OVERVIEW OF TULARE COUNTY

Tulare County has a population of over 400,000 and encompasses 3,097,020 acres. Located in the San Joaquin Valley, the county stretches from the valley floor to the higher elevations of the Sierra Nevada Mountains. Inyo County is adjacent to the east, Kern County borders to the south, Kings County is adjacent to the west, and Fresno County lies immediately to the north. Tulare County has eight incorporated cities: Dinuba, Exeter, Farmersville, Lindsay, Porterville, Tulare, Woodlake, and the county seat of Visalia.

By area, Tulare County is the seventh largest county in the state. Originally part of Mariposa County, Tulare County was chartered in 1852. During 1856, a portion of Tulare County was split off to create Fresno County, and during 1866, another portion was split off to create Kern County.

Tulare County is recognized as the largest agricultural producing county in the nation, and ranks number one in the nation in milk production. Approximately 1.4 million acres, or about 45 percent of the county, is used for agricultural purposes.

The following table displays information pertinent to the 2005-06 assessment roll as provided by the assessor:

	ASSESSMENTS	ENROLLED VALUE
Secured Roll	136,790	\$19,796,092,043
Unsecured Roll	20,518	\$990,716,062
Total Assessment Roll	157,308	\$20,786,808,105

The next table illustrates the growth in assessed values from recent years as reported in the Board’s annual reports:

ROLL YEARS	TOTAL ROLL VALUE	INCREASE	STATEWIDE INCREASE
2005-06	\$20,786,808,000	11.88%	11.1%
2004-05	\$18,579,256,000	5.93%	8.3%
2003-04	\$17,539,474,000	5.16%	7.3%
2002-03	\$16,678,870,000	5.54%	7.3%
2001-02	\$15,803,046,000	N/A	N/A

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, appraiser certification, assessment appeals, disaster relief, assessment roll changes, the low-value property tax exemption, other exemptions, and assessment forms.

Budget and Staffing

The following table illustrates budget levels over recent years:

BUDGET YEAR	GROSS BUDGET	ANNUAL CHANGE	PERMANENT STAFF
2005-06	\$4,308,184	-1.07%	65
2004-05	\$4,354,664	-0.28%	62
2003-04	\$4,366,693	11.38%	61
2002-03	\$3,920,443	32.04%	60
2001-02	\$2,969,104	N/A	53

The assessor is certified as an appraiser for property tax purposes. In addition, both the assessor and the chief auditor-appraiser are certified public accountants. The assessor's staff is organized into two divisions: the Assessment Services Division and the Valuation Services Division.

The Assessment Services Division is divided into the Systems and Standards Section and the Administrative Services Section. The Valuation Services Division is comprised of the Audit Services Section and the Appraisal Services Section, led by the chief auditor-appraiser and the chief appraiser, respectively. The Appraisal Services Section consists of an agricultural properties crew, a commercial and special properties crew, a north county residential crew, and a south county residential crew. The commercial and special properties crew also handles assessment appeals. An appraiser IV supervises each crew.

The following table illustrates staffing for the Valuation Services Division:

VALUATION SERVICES DIVISION					
Appraisal Services Section					Audit Services Section
Chief Appraiser					Chief Auditor-Appraiser
Staffing	North Residential Crew	South Residential Crew	Commercial & Special Properties	Agricultural Properties	Auditor-Appraisers
Appraiser IV	1	1	1	1	
Appraiser III	1	1	2	1	2
Appraiser II	5	4	2	4	5
Appraiser I	2	1			
Total	9	7	5	6	7

In addition to the above, certified staff includes the assessor, assistant assessor, and the head of the Systems and Standards Section. The Assessment Services Division consists of a technical staff of 22 and a cadastral staff of 6.

Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the Board. There are 39 certified appraisers on staff, including the assessor; 26 hold advanced certificates, and none are working with temporary certification. 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). The assessor does not use contract appraisers.

The assistant assessor acts as the training officer. In this capacity, he tracks the training needs of newly hired appraisers. He ensures that they obtain their temporary certificates, receive the necessary training, and timely complete the Board-certification process. All newly hired appraisers have completed certification requirements.

Under the guidance of the supervising appraiser and the chief appraiser, journeymen appraisers provide in-house training to newly hired appraisers. The training officer is responsible for coordinating, scheduling, and tracking all training matters for the appraisal staff. The training program includes the application of the cost approach, comparative sales approach, and income approach to commercial and industrial properties.

We found the assessor's training program complies with all statutory requirements.

Assessment Appeals

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

The assessment appeals board (AAB) in Tulare County was established by the passage of Ordinance No. 2870, effective July 1, 1989. The AAB consists of five members who sit on a rotating basis as a three-member panel. All members of the current board have completed the training required by section 1624.01.

The clerk of the board is responsible for providing applications for changed assessment to the public, receiving the returned applications, reviewing those applications for completeness, providing a copy of the applications to the assessor, and scheduling appeals. Copies received by the assessor's office are reviewed by the chief appraiser and then assigned to the commercial and special properties crew. This crew, consisting of five appraisers, examines the appeals cases and prepares responses. After the responses have been prepared, the assessor's staff contacts the applicants to attempt to resolve the issues prior to the hearing. If no agreement can be reached, the appeals process continues, and a hearing is scheduled.

AAB hearings are scheduled for the third Monday of every month. The assessor is represented by the chief appraiser for real property appeals and the chief auditor-appraiser for business personal property appeals.

The assessor maintains a spreadsheet that effectively tracks the progress of assessment appeals. This spreadsheet is especially useful for ensuring that appeals cases are resolved in a timely manner. No appeal in the last five years has gone unresolved for more than two years, unless the taxpayer agreed to an extension.

The following table illustrates the appeal workload for Tulare County for recent years:

APPEALS	FISCAL YEAR				
	2005-06*	2004-05	2003-04	2002-03	2001-02
Total Appeals:					
Applications Received	158	695	327	376	320
Carried Over	271	9	9	9	-
Total	429	704	336	385	320
Resolution:					
Denied-lack of appearance	50	41	55	51	56
Hearing-reduced	8	32	36	2	20
Hearing-increased	-	-	-	-	3
Hearing-upheld	8	102	54	10	10
Stipulation	61	50	11	48	2
Withdrawn	285	208	171	265	220
Total	412	433	327	376	311
Carried over to next year	17	271	9	9	9

*2005-06 figures were not final at the time of our fieldwork.

Overall, the assessor's assessment appeal program is well administered. The staff handling appeals is experienced and well prepared. However, we did find one area of the assessment appeals program that needs improvement.

RECOMMENDATION 1: Request taxpayers send appeal withdrawal letters directly to the clerk of the assessment appeals board.

When the assessor reviews an assessment under appeal and finds his value should be changed, he sends a letter to the taxpayer informing the taxpayer that he intends to enroll a corrected value. This letter provides that if the taxpayer agrees with the assessor's corrected value, the taxpayer should sign an appeal withdrawal letter and return it to the assessor in an enclosed envelope, and the assessor will then forward it to the AAB.

The AAB acts independently from the assessor, adjudicating value disputes between taxpayers and the assessor. It is inappropriate for the assessor to act as an intermediary between the AAB and taxpayers by requesting that taxpayers submit appeal withdrawal letters to him. Instead, in his letter to taxpayers, the assessor should instruct them that any withdrawal letters be sent directly to the clerk of the AAB.

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 section 170, assessees must make a written application to the assessor requesting reassessment. Alternatively, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must provide the last known assessee with an application for reassessment or revalue the property on the 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 reductions in current market value and reduce the assessed values by those percentages.

The assessor does not solicit fire reports from local fire departments, but regularly reviews newspaper articles and building permits issued for repairs. Field appraisers also note calamity discoveries for further investigation. After large-scale disasters, the assessor conducts an outreach to inform taxpayers about property tax relief through the local media (newspapers, television, and radio). Upon discovery of any property damaged by misfortune or calamity, or upon a taxpayer request for a value reduction due to misfortune or calamity, the assessor mails out applications to the taxpayers, however, he does not track them. Returned applications are analyzed and processed if accepted; if denied, the assessor notifies property owners by letter.

The assessor's office processes an average of 10 to 15 disaster relief claims per year. We reviewed several records of properties that had suffered calamities. In most cases, the assessor noted the disaster information on the records and adjusted the assessed values of the properties for damage.

The assessor's treatment of misfortune and calamity claims complies with section 170. However, we did note one area where the assessor could improve his program.

RECOMMENDATION 2: Obtain fire reports from local fire departments to discover property damaged or destroyed by misfortune or calamity.

We found that the assessor does not obtain fire reports from the fire protection agencies in Tulare County. Fire reports prepared by fire protection agencies are a valuable resource for discovering damaged or destroyed properties. In addition, these reports offer much needed information about the property damaged and helps the assessor maintain accurate records.

We obtained from the county fire department a list of fire inspections by location, date of fire, name of owner and amount of damages. The list contained 75 properties that had suffered fire

damage in 2004 estimated to equal or exceed \$10,000. We found six instances where the assessor had not mailed an application for disaster relief to the property owner, and tax relief had not been granted.

Assessment Roll Changes

Each year the assessor must complete the local assessment roll and deliver it to the auditor by July 1. Once the roll is delivered to the auditor, any correction that would decrease the amount of unpaid taxes requires the consent of the board of supervisors. 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 following table shows the number of roll changes processed in Tulare County over recent years:

ROLL YEAR	ROLL CHANGES
2004-05	7,667
2003-04	6,028

In the Appraisal Services Section, appraisers initiate roll changes, citing the appropriate statutory authority. They manually estimate the amount of change and prepare the documents for the roll corrections.

The Audit Services Section manually generates assessment roll changes. The auditor-appraisers initiate the roll corrections.

The supervising appraiser, chief appraiser, or chief auditor-appraiser review all roll changes and then forward them to the Administration Service Section. This unit prepares the *Notice of Proposed Escape Assessment*, mails the notice to the taxpayer, and tracks the ten-day notice requirement. Then the unit sends the notice of enrollment of escape assessment to the taxpayer.

We found that the assessor made roll changes within the authorized period, and mailed notices timely and correctly to the taxpayers.

Low-Value Property Tax Exemption

Section 155.20 authorizes a county board of supervisors to exempt from property taxes 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 from taxation.

Section 155.20(b)(1) provides that a county board of supervisors may not exempt property from property taxes with a total base year value or full value of more than \$5,000, or more than \$50,000 in the case of certain taxable possessory interests. A board of supervisors must adopt a low-value property tax 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.

In Tulare County, the board of supervisors concluded that the low-value threshold for cost-effective assessments was \$1,000. On January 3, 1984, the board of supervisors adopted Resolution 84-17, implementing the provisions of section 155.20 commencing with the fiscal year 1984-1985. This resolution exempts from taxation real and personal property with a full value of \$1,000 or less.

The resolution provides that the exemption does not apply to enforceably restricted property, timberland preserves, property used exclusively for nonprofit golf course purposes, and property owned by a local government, outside the agency's boundaries. For the 2005-06 roll year, the assessor identified 5,213 properties that qualify for the low-value property tax exemption.

The assessor enrolls all properties with a full value of \$1,000 or less; however, the computer system excludes those assessments until their value exceeds the \$1,000 exemption level. At such time, these properties will no longer be exempt from assessment. We did find one problem in this area. However, we cover this problem under the new construction section of this report.

Exemptions

Church and Religious Exemptions

The church exemption is authorized by article XIII, section 3(f) of the California Constitution. This constitutional provision, implemented by section 206, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking is also exempt under article XIII, section 4(d), 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 legal 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, 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.

In Tulare County, the assessor processed 13 church exemption claims and 580 religious exemption claims for the 2005-06 assessment roll. The following table illustrates the number of properties and the amount of assessed value exempt under the religious and church exemptions for recent years:

ROLL YEAR	RELIGIOUS EXEMPTIONS	EXEMPTED VALUE	CHURCH EXEMPTIONS	EXEMPTED VALUE
2005-06	580	\$195,184,185	13	\$3,190,646
2004-05	647	\$189,994,622	16	\$2,926,275
2003-04	586	\$181,787,479	11	\$2,642,364
2002-03	591	\$175,536,751	19	\$3,833,816
2001-02	598	\$171,557,361	15	\$3,474,452

The chief assessment clerk administers the religious and church exemption program for Tulare County. First-time claimants for the religious exemption file Form BOE-267-S, *Religious Exemption Claim*. Once established, the assessor annually mails Form BOE-267-SNT, *Religious Exemption Change in Eligibility or Termination Notice*, to verify continuing eligibility for the exemption. If a claimant fails to return Form BOE-267-SNT for two consecutive years, the assessor dispatches an appraiser to inspect the property.

We reviewed several records to verify the assessor's administration of both the religious and church exemptions. We found no problems with the administration of these programs.

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 Board and county assessors. The Board is responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing the *Organizational Clearance Certificate* (OCC) to qualified organizations. Additionally the assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC issued by the Board. However, the assessor may deny an exemption claim, based on non-qualifying use of the property, notwithstanding the claimant's possession of a valid OCC.

The following table summarizes welfare exemptions granted for recent years:

ROLL YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2005-06	508	\$188,172,697
2004-05	519	\$167,288,376
2003-04	482	\$134,356,120
2002-03	459	\$122,035,596
2001-02	431	\$117,272,069

The welfare exemption workload is the responsibility of a legal document examiner II. The assessor makes a concerted effort to obtain a copy of an organization’s OCC from each applicant and verify the validity of each OCC from the Board’s website. The assessor also conducts field inspections when questions regarding the validity of a claim arise. We found two aspects of the administration of this program that could be improved.

RECOMMENDATION 3: Improve the welfare exemption program by: (1) performing field inspections of all property for which the welfare exemption is claimed, and (2) sending written notice when denying a welfare exemption claim.

Perform field inspections of all properties for which the welfare exemption is claimed.

We found that the assessor does not regularly perform physical field inspections and does not complete Form BOE-267-FIR, *Welfare Exemption Assessor's Field Inspection Report*, upon completion of a field inspection for property where an exemption is being claimed for the first time.

Section 251 provides that the Board shall prescribe all procedures and forms required to carry into effect any property tax exemption enacted by statute or constitutional amendment. In order to implement section 251, the Board has prescribed in Assessors' Handbook Section 267, *Welfare, Church, and Religious Exemptions*, and Letter To Assessors 2004/058, that the assessor shall complete a physical field inspection, utilizing Form BOE-267-FIR, of any property on which an exemption is claimed for the first time.

Proper and complete physical field inspections of property verify basic property information, including identification of the claimant, property address, and the name of any other organizations using the property. During the field inspection, the assessor verifies that the activities conducted by the organization are consistent with the stated purpose of the organization on Form BOE-267, *Welfare, Church, and Religious Exemptions*. This practice ensures that the property is being operated only for qualifying uses by qualifying organizations and ensures against granting exemptions for non-qualifying uses.

Send written notice when denying a welfare exemption claim.

We found that the assessor fails to send written notification to claimants when property is found to be ineligible for the welfare exemption. Pursuant to section 254.5(c)(2), if the assessor finds that a claimant's property is ineligible for the welfare exemption or the veterans' organization exemption, the assessor shall notify the claimant in writing of all of the following:

- That the property is ineligible for the exemption.
- That the claimant may seek a refund of property taxes paid by filing a refund claim with the county.
- That if the claimant's refund claim with the county is denied, the claimant may file a refund action in superior court.

By not sending written notification to a claimant when the claimant's property is ineligible for the exemption, the assessor has failed to comply with this statutory requirement.

Assessment Forms

Government Code section 15606 requires the Board to prescribe the use of all forms for the assessment of property for taxation.⁴ For the 2006 lien date, the Board prescribed 80 forms for use by county assessors and one form for use by county assessment appeals boards. Generally, the assessor may not change, add to, or delete the specific wording in a prescribed form. The assessor may, however, rearrange information on a form, provided that the assessor submits such form to the Board for review and approval. Assessors may also use county-developed forms to assist them in their assessment duties. However, such forms may not be used as substitutes for Board-prescribed forms that are required by law to be used, and no penalty may be imposed upon a property owner for failure to file a county-developed form.

To enforce the use of prescribed forms, the Board annually requires assessors to specify in writing the forms they will use in the succeeding assessment year. Assessors are also required to submit to the Board copies of the final prints of all prescribed forms they intend to use.

We reviewed the forms used by the Tulare County Assessor's Office for the year 2006-07 and found the following:

- Of the 80 Board-prescribed forms, the assessor used 74.
- Of the 74 forms used, the assessor rearranged 65.
- The assessor had timely submitted to the Board copies of the rearranged forms for approval.
- The assessor had timely submitted to the Board copies of the final prints of the forms.

⁴ See also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.

- The assessor uses 23 Board-prescribed forms and 4 locally-developed forms, which are available on the assessor's Website.
- The assessor also uses 74 locally-developed forms, form letters, and questionnaires for use with both the public and within the assessor's office.

Since we are changing our review and approval process for forms, we are not commenting on the assessor's form procedures at this time.

ASSESSMENT OF REAL PROPERTY

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

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

Sections 1 and 2 of article XIII A of the California Constitution provides that, absent post-1975 new construction or changes in ownership, the taxable value of real property shall not exceed its 1975 full cash value, adjusted annually for inflation by a factor not to exceed 2 percent.

Change in Ownership

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

Discovery/Document Processing

The assessor's primary means of discovering properties that have changed ownership are documents recorded at the recorder's office. Since the assessor is also the recorder, the exchange of information is complete and seamless. The recorder's staff scans all documents relating to a change in ownership into a secure image folder, which can be accessed by the assessor's staff. The chief assessment clerk copies the documents from the image folder to individual folders in the assessors' system, separated by date.

Legal document examiners who are responsible for matching legal descriptions to assessor's parcel numbers review documents in each folder. They also analyze filings of Form BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), deeds, and other recorded documents to determine if each event is reappraisable and the percentage of ownership transferred. The examiners forward transactions determined to be reappraisable to the Appraisal Services Section for valuation.

Except for cases of direct enrollment, the appraisal staff reviews the transfer information, and then performs a field check of the parcel before valuing property. The appraisal staff then returns the paperwork to data entry for enrollment.

The following table shows the total number of reappraisable transfer documents processed by the assessor's office for recent years:

ROLL YEAR	TRANSFERS
2004-05	14,006
2003-04	14,268
2002-03	10,537
2001-02	10,537
2000-01	11,000

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 Board'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 sufficient information to identify the real property. Because of the limited data provided by many entities, assessors should independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

We reviewed the assessments of properties owned by several legal entities that were reported by the Board's LEOP unit to have experienced a change in control from 2001 through 2005, and we found no errors pertaining to identification and change in ownership enrollment. The assessor processes LEOP transfers timely and properly.

Section 408.1 Transfer Lists

Section 408.1(a) requires the assessor to maintain a list of transfers that have occurred within the preceding two-year period. Section 408.1(c) requires that the transfer list include the names of the transferor and transferee, the assessor's parcel number, the property address, the date of the transfer, the date of recording, the recording reference number, and, where known, the consideration paid for the property. However, other than the sales information, the assessor shall not include information on the list that is not otherwise public information.

Pursuant to section 408.1, the assessor has an electronic two-year transfer list that is available at the public service counter free of charge. The transfers on this list conform to the description and information requirements of section 408.1, and the list is updated quarterly.

Section 63.1 Exclusions and Section 69.5 Base Year Value Transfers

Section 63.1 excludes from reappraisal certain purchases or transfers between parents and children. In addition, certain transfers from grandparents to their grandchildren are also excluded.

Section 69.5 allows qualified homeowners 55 years of age or older, and those who are severely and permanently disabled, to transfer the base year value of their present principal residence to a replacement dwelling purchased or newly constructed within two years of the sale of the original residence and within the same county. Section 69.5 also allows counties to adopt ordinances to expand these benefits to include intercounty transfers. However, Tulare County has not adopted an implementing ordinance for intercounty transfers.

We reviewed several claims for base year value transfers processed by the assessor. We found that the assessor accepted only those claims that were filed timely, that included the required information, and that contained all required signatures. The assessor is diligent in verifying property values and transfer dates for both the original and replacement dwellings, and in confirming eligibility for the homeowners' exemption. A similar degree of diligence was noted on section 63.1 claims that we reviewed.

The following table represents the number of section 63.1 and 69.5 claims filed in Tulare County for recent years:

ROLL YEAR	SECTION 63.1 CLAIMS	SECTION 69.5 CLAIMS
2004-05	941	15
2003-04	1,071	32
2002-03	896	14
2001-02	687	21
2000-01	2,076	282

We found no problems with the assessor’s administration of section 63.1 or 69.5 claims.

Partial Interest Transfers

When a fractional change in ownership occurs, the assessor determines a new base year value for that portion that changed ownership. The portion that does not change ownership retains its existing base year value, and the new value for the fractional change in ownership is added to the existing base year value. Since our 2002 survey, the assessor has implemented the use of a new worksheet for valuing partial interest transfers. The appraiser inputs the percentage interest transferred and the full market value of a property as of the date of the transfer. The system automatically calculates the base year value for each interest transferred and the factored base year value of the total property.

Direct Enrollment Program

To streamline the reassessment of uncomplicated sales of residential property, many assessors use direct enrollment programs. In Tulare County, the assessor uses a direct enrollment program for enrolling sales of single family residences. To qualify for direct enrollment, the change of ownership must be a simple transfer of 100 percent interest in the single family residence. The appraisal staff is responsible for reviewing sales to determine appropriate ranges of value. Reappraisable transfers meeting the criteria for direct enrollment and falling within a predetermined value range are directly enrolled. This program allows for efficient processing of simple transfers of single family residences.

Improvement Bonds

Improvement bonds are instruments used to finance the construction of public improvements that generally enhance the value of the privately owned real property. Improvements often financed using improvement bonds include sewers, sidewalks, lighting, and water lines. Land directly benefiting from such improvements is pledged as security for repayment of the bonds. The improvement bond is a lien that encumbers the land and binds the owner and all successors-in-interest in accordance with the 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 the evidence.

Improvement bonds are not common in Tulare County, and only one subdivision has obtained bond financing in the past five years. We reviewed several properties located in this subdivision that changed ownership within the last five years and found that the assessor does not add any value for improvement bonds. The assessor conducted a study, which indicated that there is no difference in the sales price of property with or without outstanding bonds.

New Construction

Section 70 defines newly constructed property, or new construction, as: (1) any addition to real property since the last lien date, or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement, constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property 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 70(c), (d), and (e), and sections 73 through 74.7 address these exclusions.

Building Permits

Building permits are the assessor's main source for discovering assessable new construction. There are ten permit-issuing agencies in Tulare County. The assessor receives permits from two agencies within the County of Tulare as well as from agencies within the cities of Dinuba, Visalia, Tulare, Porterville, Lindsay, Farmersville, Exeter and Woodlake. Other methods used for discovering assessable new construction include review of newspaper articles and business property statements, and field inspections.

The Tulare County Health and Human Services Agency issues building permits for water wells for both agricultural and domestic purposes. Water wells are assessable new construction and are properly classified as land.

The assessor processed 11,799 permits for the 2005 roll year. A permit specialist inputs the permit data into the assessor's system. Each month, the permit specialist forwards a list of residential permits to the supervising appraiser and a list of all other permits to the chief appraiser who marks them as active or inactive. Inactive permits are permits that do not generate a change in value or the value change is immaterial. Only active permits are printed and forwarded to the Appraisal Services Section to work.

The assessor has a self-reporting program whereby all permittees (except permittees for new homes) are sent questionnaires. Property owners return about 75 percent of the questionnaires to the assessor. Subsequently, an appraiser conducts a field inspection and values the new construction. Field inspections help the assessor verify information received from the questionnaires and aid in the discovery of new construction completed without a permit.

We found that new construction was properly documented both on the appraisal records and on the assessor's computer system.

Construction In Progress

Section 71 requires the assessor to value construction in progress at its full value on each lien date until completion of construction. Upon completion of construction, the entire portion of property, which is newly constructed, is reappraised at its full value. New construction is considered completed and enrolled based on an on-site review, a notice of completion from the building department, or information from the taxpayer that indicates that construction is completed.

In valuing new construction by the cost approach, the assessor uses several cost sources, including the Assessors' Handbook Section 531, *Residential Building Costs*, local costs, reported historical costs for residential properties, and *Marshall Valuation Service* for commercial and industrial properties.

In our 2002 survey, we recommended that the assessor obtain permits for new construction from all issuing agencies. The assessor is still not obtaining permits from the Tulare County Health and Human Services Agency. Therefore, we repeat this recommendation. In addition, we found one other problem with the assessor's permit processing program.

RECOMMENDATION 4: Improve the new construction program by: (1) obtaining permits for new construction from all issuing agencies, and (2) assessing all new construction not exempt by statute or ordinance.

Obtain permits for new construction from all issuing agencies.

Currently, the Tulare County Health and Human Services Agency does not forward to the assessor permits for wells, but it indicated to us that they would do so upon request. A permit for a well can be issued independently of a structure permit when, for example, an owner plans to drill the well and build later, or when an owner of a vacant parcel drills a well as an added enticement for selling the parcel. Additionally, agricultural wells are often drilled as insurance against drought or reductions in water allocations from irrigation districts.

To ensure that all qualifying new construction is assessed, the assessor must receive notification of every approved permit for new construction. Section 72(a) provides that any city, county, or city and county shall transmit a copy of any building permit to the county assessor as soon as possible after the date of issuance. Although well permits may be considered less important than permits for the construction of structures, they serve notice that some kind of construction activity is taking place. These permits may signal that other related construction activity is occurring or may begin soon. Thus, while it is the Tulare County Health and Human Service Agency's responsibility under section 72(a) to forward copies of all permits, including well permits, to the county assessor, the assessor should also request that this agency forward such well permits to his office.

Assess all new construction not exempt by statute or ordinance.

We found that the assessor does not reassess decks valued under \$2,500.

Pursuant to section 201, all property in this state, not exempt under the laws of the United States or of this state, is subject to taxation. By not reassessing decks valued under \$2,500, the assessor has failed to assess all property not exempt by statute or ordinance pursuant to section 201.

Declines in Value

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

Discovery of value declines in commercial, industrial, residential, and agricultural properties is accomplished primarily through appraiser familiarity with his or her assigned geographic area or property type. The appraisers are expected to be familiar with value trends within their areas of responsibility. In addition, taxpayer requests for review and assessment appeals may trigger reviews for value declines on a broader scope.

The assessor tracks all property with reduced assessments resulting from declines in value and assigns a special code in the computer system so that the annual inflation factor will not be applied. In addition, the Assessment Services Section flags the records for these properties for annual review by appraisers familiar with the area.

We reviewed several residential and commercial property records with decline-in-value assessments. The appraisals we reviewed were well documented, complete, and reasonable.

In our 2002 survey, we recommended that the assessor revise the notice informing assesseees of an increase in a property's full cash value to include the information required pursuant to section 619(c). This recommendation has not been implemented, and is therefore repeated.

RECOMMENDATION 5: Revise the notice informing assesseees of an increase in a property's full cash value to include the information required by section 619(c).

When a property's full cash value exceeds its FBYV, the assessor must enroll the FBYV as the taxable value and notify the assessee of the increased value. Section 619(c) requires that the notice include the base year value of the property, compounded annually from the base year to the current year by the appropriate inflation factors.

The assessor's notice informing assesseees of an increase in a property's full cash value does not include all the information required under section 619(c). Specifically, the FBYV is omitted from the assessor's notice. Accordingly, the assessor's omission of the FBYV is contrary to statute.

Supplemental Assessments

Sections 75 through 75.80 mandate supplemental assessments for changes in ownership and the completion of new construction. A supplemental assessment is an assessment that reflects the increase or decrease in assessed value resulting from a change in ownership or completion of new construction for the fiscal year. If a change in ownership or completion of new construction occurs between January 1 and May 31, two supplemental assessments result from the same event: one for the remainder of the current fiscal year, another for the entire next fiscal year. Clarification regarding supplemental assessments resulting from the completion of new construction is contained in Rule 463.500.

The assessor issues supplemental assessments whenever there is a change in ownership or completion of new construction. Appraisers submit values for changes in ownership and completed new construction on a valuation worksheet. An assessment specialist reviews the worksheet to ensure that: (1) the correct roll years are being supplementally assessed; (2) if the assessment falls within the dual supplemental period, the inflation factor is applied to the second supplemental assessment; and (3) there are no errors in the mathematical calculations.

The chief assessment clerk and the chief appraiser review the worksheets and send them to data entry to be entered into the computer system. The system generates the supplemental notices that are mailed to the taxpayers. Sixty days after the issuance of the supplemental notices, the values are electronically forwarded to the auditor-controller for issuance of the tax bills. The entire

supplemental assessment process, from the date the appraisal is made to the issuance of the tax bill, takes approximately two to three months. Supplemental assessments generated may be either positive, which will generate a bill, or negative, which will generate a refund.

In our 2002 survey, we recommended that the assessor train his staff on the correct method of calculating supplemental assessments. We found that the assessor has not implemented this recommendation. However, we address this issue below, under the section discussing California Land Conservation Act Properties.

California Land Conservation Act Properties

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 guidance for the appraisal of these types of properties.

Tulare County has about 1,109,000 acres under CLCA contract for the 2005-06 roll, with approximately 5,200 acres in nonrenewal status. The total assessed value for land and living improvements was \$1,122,642,559, or 5.5 percent of the 2005-06 roll.

The following table shows a four-year history of acreage under CLCA contract and the number of those properties in nonrenewal status:

ROLL YEAR	CLCA ACRES	NONRENEWAL ACRES	LAND	GROWING IMPROVEMENTS	TAXABLE VALUE
2005-06	1,108,636	5,247	\$743,672,633	\$378,969,926	\$1,122,642,559
2004-05	1,111,667	3,892	\$698,787,334	\$379,284,052	\$1,078,071,386
2003-04	1,111,415	3,168	\$708,292,892	\$380,549,090	\$1,088,841,982
2002-03	1,113,009	3,348	\$691,299,806	\$389,510,403	\$1,080,810,209

Since 2002-03, acreage in CLCA status has remained relatively stable. The increase in the number of properties in nonrenewal status is attributable to increasing values in the market for

developable land. Rural land in Tulare County is put to diverse uses and consists of field crops, fruits and nuts, grapes, livestock, and dairies.

The valuation of CLCA properties is the responsibility of six real property appraisers. The appraisers conduct field reviews to: (1) discover and value new construction; (2) reappraise property upon a change in ownership; and (3) review any activity that may trigger a value review. However, effective for 2006, low-value permits (\$500 dollars or less) are no longer field-reviewed.

The CLCA assessment program is completely automated. The computer program calculates the restricted values and compares the restricted values with factored base year values to determine proper taxable values.

In Tulare County, the total taxable value of property subject to CLCA contract averages less than \$1,020 per acre. For the past several years, the market value has rarely been the lowest value indicator, and has usually set the upper limit of value.

Valuation

Section 423(a)(1) requires the assessor to value CLCA property by capitalizing an annual income that is based on rent actually received and on typical rentals received in the area for similar land in similar use.

The assessor mails agricultural questionnaires every five years requesting rents, compatible use information, production, and other information. The assessor uses cash rents to value most CLCA properties, and uses share rents only for citrus properties.

In our 2002 survey, we recommended that the assessor: (1) assess vineyard trellising on lands under CLCA contracts as unrestricted improvements, (2) issue supplemental assessments when the construction of trellising is completed, (3) issue supplemental assessments on the completion of new construction on open-space properties only as required by section 75.14, (4) assess restricted land improvements on open-space properties pursuant to section 423, (5) develop appropriate risk components for CLCA properties, (6) classify wind machines as personal property or fixtures, (7) allow for a return of investment in irrigation wells, and (8) solicit compatible use income information on all CLCA parcels.

We found that the assessor has implemented recommendations (3), (6), (7), and (8), or that no evidence exists that his practices relating to those recommendations were in error. However, we found that there the assessor has not implemented recommendations (1), (2), (4), and (5). Therefore, we are repeating these recommendations, with added revisions.

RECOMMENDATION 6: Improve the CLCA program by: (1) assessing vineyard trellising on lands under CLCA contract as unrestricted improvements, (2) issuing supplemental assessments when the construction of trellising is completed, (3) assessing restricted land improvements on CLCA properties pursuant to section 423, and (4) developing appropriate risk rate component for CLCA properties.

Assess vineyard trellising on lands under CLCA contract as unrestricted improvements.

The assessor continues to assess trellises as unrestricted improvements during the period when the vines are exempt. When the vines become taxable, he includes them as part of the vines, but does not deduct from the income stream a charge for a return *on* or *of* the trellis investment. This practice results in the value of the trellises being included in the restricted land portion of the property value.

Pursuant to Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* at page II-22, the assessor should deduct a charge for a return *on* and *of* the value of improvements from the income stream before capitalizing the residual income into the value of the restricted property. This step is necessary because the income to be capitalized in open-space valuation is the net income attributable only to the land and restricted living improvements.

Although section 423(c) provides that CLCA contracts may allow nonliving improvements to be valued as restricted property, Tulare County does not have such a provision. As nonliving improvements, trellises are not restricted and should not be valued by the restricted valuation method. The assessor's practice leads to underassessments because the improvements are valued as if restricted rather than unrestricted. Additionally, deleting the trellises from the assessment roll when the vines become taxable results in the omission and miscalculation of supplemental assessments when there is a change in ownership.

Issue supplemental assessments when the construction of trellising is completed.

We again found the assessor does not issue supplemental assessments when the construction of trellising is completed.

Section 75.14 provides that property subject to the assessment limitations of article XIII A of the California Constitution shall be subject to supplemental assessments. Nonliving improvements on restricted land, such as trellising, are subject to the assessment limitations of article XIII A of the California Constitution. Therefore, at the completion of the construction of the trellising, the new construction is subject to supplemental assessment. The assessor's practice is contrary to the requirements of law and results in a loss of tax revenue.

Assess restricted land improvements on CLCA properties pursuant to section 423.

When estimating the total restricted land value, the assessor incorrectly adds the factored base year value of mounding to the restricted land value. In our 2002 survey, we recommended that he correct this problem.

Section 423 requires that enforceably restricted CLCA land be valued by the capitalization of income method. Since mounding is included in the restricted land classification, it should be valued as part of the restricted land value and not at the factored base year value. The assessor's failure to follow the requirements set forth in section 423 results in the improper determination of the restricted land value.

Develop appropriate risk rate component for CLCA properties.

The assessor uses a single, uniform risk component of one percent in the valuation of all properties under CLCA contract, regardless of location, property characteristics, or crop. We found no support for the use of a single risk rate.

AH 521 at page II-28 recommends a basic risk component of one percent as a standard guideline for the purposes of developing the capitalization rate used in the valuation of CLCA properties. Additionally, AH 521 notes that the risk component will vary according to the risks associated with the development of the income to be capitalized. Factors such as price stability, production costs, availability of water, and damage due to wind and flood might increase or decrease the risk for a particular property. In addition, because the location and characteristics of land varies throughout the county, it is reasonable to expect variations in the risk rate used by the assessor.

By failing to vary the risk rate component for these different factors, the assessor may inaccurately assess CLCA lands.

Taxable Government-Owned Properties

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 173 taxable government-owned properties enrolled in Tulare County. The assessed value of these properties for roll year 2005-06 is less than \$8.0 million, which represents only 0.039 percent of the roll value. The assessor identifies all taxable government-owned properties with a special code in his computer system for processing and valuation. The assessor handles the valuation of a public entity transfer in the same manner as any other transferred property. When the transfer unit identifies a parcel as a taxable government-owned property, the transfer unit sends the information to the mapping unit to verify the ownership of the property and then forwards this information to a real property appraiser for valuation.

The assessor uses a computer program to calculate the restricted value, factored base year value, and market value for each taxable government-owned property. The program then enrolls the lowest value for each property.

Our review of taxable government-owned properties in Tulare County indicates that the assessor complies with all applicable statutes.

Timberland Production Zone Properties

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

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

Tulare County has 13 parcels consisting of approximately 5,011 acres under TPZ zoning. For the 2005-06 assessment year, the total assessed value of TPZ lands in Tulare County was \$802,871.

Our review of randomly selected records found that the assessor properly follows the Board's schedule of per-acre values for different site classes of TPZ land. There are no TPZ parcels in rezoning status pursuant to Government Code section 51120 and section 426.

The assessor accurately identifies and assesses improvements and compatible uses on TPZ properties at the lower of factored base year or current market value. Our review of TPZ lands in Tulare County indicates that the assessor complies with all applicable statutes.

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 usually tax exempt.

The assessor is responsible for identifying the existence of taxable possessory interests and valuing those taxable possessory interests upon their creation, renewal, or renegotiation of the lease, and upon the construction of new improvements on the property.

The Tulare County Assessor's program for discovering taxable possessory interests includes an annual polling of approximately 186 public agencies by letter or in person to request current information on new or changed tenancies or rents. There are currently 996 taxable possessory interests assessed in Tulare County with a total value exceeding \$80 million. The total enrollment of all taxable possessory interests represents about 0.4 percent of the section 601 roll value for year 2005-06.

For the 2005-06 roll, we found that the assessor did not deduct operating expenses from the gross income before converting the income stream into a value. Pursuant to Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests* at p. 31, the assessor should deduct

allowed expenses paid by the public owner from the estimated economic rent. However, for the 2006-07 roll, the appraisers have deducted appropriate expenses from the income stream.

In our 2002 survey report, we recommended that the assessor: (1) apply the annual inflation factor to the base year values of all taxable possessory interests pursuant to section 51(a)(1), and (2) revalue taxable possessory interests at the end of the anticipated terms of possession used by the assessor to value those interests. Based on the taxable possessory interest records that we reviewed, the assessor has implemented these recommendations. However, we did note one aspect of the taxable possessory interest program that the assessor should address.

RECOMMENDATION 7: Assess all taxable possessory interests at the fairgrounds.

We found that the assessor is not reviewing leases associated with the county fairgrounds to discover taxable possessory interests. A yearly list of concessions is obtainable from the Tulare County Fairgrounds. From this list, the assessor can identify and assess taxable possessory interests.

The Tulare County Fair, 24th District Agricultural Association, which operates the fairgrounds, rents space to various groups and individuals for uses during the year. We obtained a list of 112 commercial and food vendors (other than the 6 concessions currently assessed at the fairgrounds). Many of these uses appear to be sufficiently durable, beneficial, exclusive, and independent to warrant assessment as taxable possessory interests.

Although, the county's low-value exemption ordinance of \$1,000 may not cover many of the smaller taxable possessory interests, our research indicates that there might be some taxable possessory interests in excess of the low-value ordinance amount. To avoid assessing these low-value taxable possessory interests, the assessor may consider requesting that the board of supervisors expand the existing low-value ordinance to exempt certain taxable possessory interests up to \$50,000 in value.

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 time, they may add and/or 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 crucial. 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 whether the additions are properly enrolled.

We found that the Tulare County Assessor properly classifies reported structural improvements on the secured roll and fixtures on the unsecured roll. The assessor allocates responsibility for the assessment of leasehold improvements classified as structures to the Appraisal Services Section. The Audit Services Section assesses leasehold improvements classified as fixtures.

The most common methods of discovery of leasehold improvements are through the use of Schedule B of the BPS, and review of building permits. The auditor-appraiser refers to the Appraisal Services Section expenditures reported on schedule B that exceed \$50,000. The auditor-appraisers flag the BPSs with a check mark for referral. This check indicates that a copy of Schedule B is to be forwarded to the appraisers for review and filed with the appraisal record.

We compared the BPSs with the corresponding real property appraisal record and found that coordination between the two sections are consistent and in compliance with the current statutes.

In addition, the Audit Services Section discovers billboards by a review of BPSs submitted by outdoor advertising companies and review of building permits. When billboards change ownership or are newly constructed, the base year value is established using the current State Department of Transportation (Caltrans) value schedule. Each year thereafter, the assessor compares and enrolls the lower of the factored base year value or the fair market value as established by the current Caltrans schedule.

Tulare County's leasehold improvement program complies with the current statutes.

Water Company Properties

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.

Municipal Water Systems

Article XIII, section 3(b) of the California Constitution exempts from taxation property owned by a local government and located within its boundaries. Such property includes both property owned by city water departments and located within city limits, and property owned by water districts and located within district boundaries. When a local government entity owns property located outside of the government agency or district's boundaries, however, the property may be assessable as taxable government property. We identified two parcels owned by the City of Porterville that are located outside the city boundaries. In each instance, the assessor correctly assessed the parcels as taxable government-owned properties.

Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost to its members or stockholders. Usually, the individual ownership interests in a mutual water company are appurtenant to individual parcels of land eligible for water service from the

company. In such cases, the assessor should assign little value to the land, improvements, or to the delivery systems owned by the water company, because the values of these properties are reflected in the assessments of the member or stockholder parcels.

We were able to identify 44 mutual water companies in Tulare County. The assessor has enrolled a nominal value on real property owned by mutual water companies. The assessor's policy is to assess the parcels served by each mutual water company at their sales prices, which reflect the values of the owners' interests in the assets of the mutual water company.

Private Regulated Water Companies

Private water companies are utility companies that earn profit from the sale of water. The rates charged by these types of water companies are regulated by the California Public Utility Commission (CPUC), which limits the profits that these companies may earn to an authorized return on each company's investment. The market value of real property owned by regulated companies is influenced by these rates. Rate regulation may result in the current market value of the real property being lower than its factored base year value.

Our examination of the appraisal records of properties owned by regulated water companies indicates that the assessor correctly assesses these types of properties. The assessor considers the Historical-Cost-Less-Depreciation method, compares that value to the factored base year value, and enrolls the lower of the two values. The assessor applies the proper procedures when valuing the properties owned by private regulated water companies.

Recommendations

In our 2002 survey, we recommended that the assessor: (1) review lists of water systems from regulating agencies to discover assessable water company properties, (2) obtain annual CPUC reports from all regulated water companies, and (3) obtain the articles of incorporation and other relevant property tax documents from each mutual water company. We found that the assessor has implemented the second recommendation; he now obtains the annual CPUC filings of water companies in Tulare County.

However, the assessor still does not obtain water inspection reports from the Tulare County Health and Human Services Agency (HHSA) or the State Department of Health Services, Division of Drinking Water and Environmental Management (DHS). Moreover, he still fails to obtain relevant property tax documents from mutual water companies. Therefore, we are repeating these two recommendations.

RECOMMENDATION 8: Improve the water company assessment program by:
(1) reviewing the lists of water systems from regulatory agencies to discover assessable water company properties, and
(2) obtaining the articles of incorporation and other relevant property tax documents from each mutual water company.

Review the lists of water systems from regulatory agencies to discover assessable water company properties.

The assessor does not receive reports issued by the HHSA or the DHS. The listed water source properties include mobilehome parks, campgrounds, lodges, country clubs, mutual water companies, private water companies, and others. The lists are useful for discovery of water company properties, including assessable wells, pumps, and pressure systems.

HHSA lists 353 properties, and DHS lists 328 properties that may qualify as mutual or privately owned water companies. The Tulare County Assessor assesses only 349 properties owned by all water companies. Consequently, some water company properties may be escaping assessment.

Obtain the articles of incorporation and other relevant property tax documents from each mutual water company.

We found no documents detailing the incorporation and assets of mutual water companies. In order to assess the real and personal property of mutual water companies correctly, the assessor must review the articles of incorporation and asset lists. Without this data, the assessor cannot ensure that he is correctly assessing all the assets of the mutual water companies or that the value of the properties served is appropriately reflecting these assets.

Mineral Properties

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties. There are no geothermal properties in Tulare County.

Mining Properties

The county has over 20 sand and gravel mineral properties. A supervising appraiser appraises these properties. In our 2002 survey, we recommended the assessor adequately document his records. We found that worksheets detailing the assessor's value calculations were not included in the appraisal records, forms were incomplete, and there was insufficient information in the files to support value conclusions.

Currently, we found that the assessor has corrected these problems. Although some taxpayers still do not provide sufficient information on their annual production reports to the assessor, the

assessor's records now include valuation worksheets that provide better detail surrounding the valuation of these types of properties.

Thus, there are no recommendations regarding mining properties.

Petroleum Properties

Petroleum property mineral rights refer to the rights to remove petroleum and natural gas from the earth. Other property may be associated with these mineral rights. The right to remove such minerals from the earth is a taxable real property interest. Increases in recoverable amounts of petroleum and natural gas caused by changed physical or economic conditions constitute additions to such property interests. Conversely, reductions in recoverable amounts of such minerals caused by production or changes in expectation of future production capabilities constitute reductions in these interests.

There are approximately 70 active wells producing 39,000 barrels of oil and 265 thousand cubic feet of gas annually in Tulare County. These statistics place Tulare County tenth on the list of the state's top petroleum producers.

The assessor values the petroleum properties using software provided by Kern County. Most of the properties in the county are mature with well established production, and the analysis is straightforward. There is little new development in the county.

A supervising appraiser appraises these types of properties. He enters information provided by the taxpayer on the annual production reports into the valuation program and uses the parameter recommendations determined annually by the Petroleum Standards Advisory Committee of the California Assessors' Association.

We have no recommendations regarding petroleum properties.

Pipeline Rights-of-Way

Intercounty pipeline rights-of-way were assessed by the Board from approximately 1982 until 1993, when an appellate court ruled that such assessments were outside the Board's constitutional authority.⁵ The court ruled that while the pipelines themselves are properly assessed by the Board, 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 401.13, which govern the valuation of intercounty pipeline lands and rights-of-way.

Tulare County has one pipeline right-of-way assessment on the local roll with a total assessed value of \$843,338. The assessor maintains a separate base year value for each separate right-of-way interest, but assesses the rights-of-way to a single countywide tax rate area pursuant to section 401.8(a).

⁵ *Southern Pacific Pipe Lines Inc. v. State Board of Equalization* (1993) 14 Cal.App.4th 42.

We reviewed the current roll value for the one assessment and confirmed that the assessor had correctly factored the 1975 base year value. We found that all pipeline rights-of-way in Tulare County are being valued and assessed correctly pursuant to these statutory provisions.

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.

The chief auditor-appraiser, who is a certified public accountant, administers the Audit Services Section. In this section of the survey report, we review the assessor's audit, business property statement processing, business property valuation, leased equipment discovery and assessment programs, and the assessment of manufactured homes, aircraft, vessels, and animals.

Audit Program

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

The following table shows the total number of audits completed in recent years:

ROLL YEAR	TOTAL AUDITS	MANDATORY AUDITS	NONMANDATORY AUDITS	NET VALUE CHANGE
2005-06	196	196	0	\$109,185,309
2004-05	156	148	8	\$175,787,849
2003-04	178	167	11	\$179,548,792
2002-03	207	197	10	\$69,929,863
2001-02	126	101	25	\$57,554,653

Mandatory Audits

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

In our 2002 survey, we recommended the assessor bring the mandatory audit program to current status. The assessor has 521 mandatory audit accounts, or an average annual workload of

130 audits. The audit services staff is composed of two senior auditor-appraisers and five journeymen auditor-appraisers. The chief auditor-appraiser reviews the completed audits.

Based on our review and the number of audits still outstanding, the assessor will meet his mandatory audit obligations pursuant to section 469. In addition, the assessor monitors audit progress on a monthly basis via production reports.

We have no recommendations for the assessor's mandatory audit program.

Nonmandatory Audits

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

The assessor understands the importance of maintaining a nonmandatory audit program. There have been 54 such audits completed during the preceding four years. As with the mandatory audits, we found these audits to be in order and well documented.

Statute of Limitations

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

The assessor requests waivers of the statute of limitations from taxpayers when he anticipates an audit will not be completed in a timely manner.

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 both mandatory and nonmandatory audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation. In addition, we found the assessor's audit procedures, audit review, and controls to be well-structured and maintained. We commend the assessor for his excellent audit program.

Business Property Statement Processing 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 Tulare County Assessor's Office processed 22,251 property statements in preparation of the 2005-06 assessment roll. Included in this number were 13,956 general business statements, 6,526 agricultural statements, 271 apartment statements, 38 water company statements, and 1,460 aircraft and vessel statements. This number does not include approximately 3,000 direct billed vessel assessments, many of which fall below the minimum value of \$1,000 set by the county low-value resolution.

The total assessed value derived from the statements processed for the 2005-06 assessment roll is \$2,401,644,172, excluding vessels and aircraft. This total includes trade fixtures and personal property valued at \$1,522,078,665 on the secured roll and \$879,565,507 on the unsecured roll.

Property Statement Processing

The Audit Services Section processes the business property statements (BPS). Our review of the BPS program included processing procedures, use of Board-prescribed forms, processing by noncertified staff, taxpayer interactions, completeness of the property statements, authorized signatures, application of penalties, real property division coordination, and record storage and retention. Our review also included a sample of active BPSs. All the statements sampled contained the proper usage of Board-prescribed forms, were completed in sufficient detail, and included original signatures from qualified signatories.

Processing of the BPSs begins with the mail clerk whose responsibility is to screen statements for minimum reporting requirements. The clerk reviews returned statements for proper date stampings, for inclusion and utilization of original forms (existing business accounts only), and for original signatures. For statements not meeting the minimum requirements, the clerk copies the originals and sends the originals back to the taxpayer for completion. In addition, the clerk copies statements indicating leased equipment and forwards the copies to the leasing processor, who screens and sorts them.

The clerk forwards the original statements to certificated staff members for processing. Then, they are forwarded to a scanner (usually a senior staff member) for review. The scanner's primary responsibility is to ensure acceptability of the processed statements. Because the direct billing program utilized by Tulare County includes only vessels, BPSs are sent to all other 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 includes review of fictitious business name filings, city and county business licenses, phone directories, sales tax permits, and field canvassing. We found that the assessor employs effective methods to discover taxable business and personal property.

The assessor's BPS program is well documented and employs good quality controls. Based upon our review, we found that the BPS program is efficiently managed.

Business Equipment Valuation

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

We reviewed the assessor's business property valuation program, including written processing procedures, the proper use of price indices, percent good factors, and fixture percentage allocation. The assessor uses the valuation factor tables published by the California Assessor's Association (CAA) to value business property. The CAA price indices generally parallel the indices published in AH 581. We have no recommendations in this area.

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*.

Assesseees are required to report all leased property (taxable property in their possession but belonging to others) on their annual property statements. Also, for each item reported, they are required to provide information on the type of property, year of acquisition and manufacture, cost to purchase new, description or lease number, and the owner's name and address. A cross-check of information reported by lessors and lessees verifies the accuracy of the reported information.

An auditor-appraiser is responsible for the assessment of leased equipment in Tulare County. When the mail clerk receives a lessor's BPS with completed information in the lease section, the mail clerk forwards a copy to the auditor-appraiser and the original to staff for normal BPS

processing. The auditor-appraiser cross-references the information on the copy with a database maintained by the assessor to track all taxable leased equipment enrolled in the county.

This cross-check is again performed when the lessee's statement is processed and during review by the scanner. The database facilitates the comparison of leasing information reported on the lessor's property statement with information provided by the lessee to ensure the accuracy of the cost and acquisition data to be used as a basis for the calculation of a value indicator. It also decreases the likelihood of double assessments or escape assessments.

We reviewed the BPSs of two major lessors and traced the information through to final enrollment of several lessee accounts. We found that the reported equipment was properly valued and assessed. Additionally, we reviewed a sample of business accounts associated with the lessees for double assessments. We did not find any indication that the sampled leased equipment was double assessed. We then sampled some expired leases and found that the associated leased equipment accounts were deactivated timely. Finally, we reviewed the record of a qualified financial institution and found that the assessor correctly assessed the equipment to the lessees.

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. In Tulare County, once the assessor receives notice from a lessor that a lease has been cancelled, the assessor generates a letter to the former lessee as a reminder of the obligation to report such equipment.

Prior to the deactivation of the original leasing account, a screen print of the summary and detail screens associated with the leased equipment account is made and retained in the lessee's record. When a statement is received from the lessee, the processor scans the lessee's statement for the formerly leased equipment. If the processor is unable to establish that the lessee has reported the equipment, the processor will investigate further and add it to the assessment if appropriate. We commend the assessor for his administration of a complex program.

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.

There are 3,097 manufactured homes in Tulare County with a total roll value of \$64,750,016, which is about 0.32 percent of the 2005 roll value. The valuation of manufactured homes is the responsibility of the Appraisal Services Section. Staff assignments are made according to the appraisers' geographic area of responsibility. The assessor's office is notified of sales and new construction of manufactured homes by the State Department of Housing and Community Development, building permits, dealer reports of sale, and voluntary conversions.

In determining the full cash value of a manufactured home on rented or leased land, the assessor, pursuant to section 5803, must take into consideration sales prices listed in recognized value

guides. Recognized value guides include, but are not limited to, the *NADA Manufactured Housing Appraisal Guide* (NADA).

The assessor classifies manufacture homes in Tulare County as improvements and enrolls them on the secured roll. The assessor considers both the selling price and NADA value in the appraisals of transferred manufactured homes. However, if purchased new, the reported dealer's cost is used. If the manufactured home is located in a mobilehome park, the NADA value indicator is relied upon in order to ensure that in-park location value is excluded from the assessment. The assessor includes the value of accessories, such as awnings, porches, and skirting, as well as the general overall condition of the manufactured home when estimating the NADA value.

In our 2002 survey, we recommended the assessor use the correct edition of the manufactured home valuation guides. In our current review, we found the assessor has not implemented our prior recommendation. Therefore, we are repeating this recommendation with another recommendation addressing one other problem we found.

RECOMMENDATION 9: Modify manufactured home assessment procedures by: (1) using the correct edition of the manufactured home valuation guides and (2) assessing manufactured homes at the lesser of the factored base year value or the current market value.

Use the correct edition of manufactured home valuation guides.

We found that the assessor uses the most recent edition of the NADA guide instead of the edition that corresponds to the date of valuation.

Section 5802(a) specifically provides that base year value means the full cash value of a manufactured home on the date it is purchased or changes ownership. Value guides reflect the typical depreciation exhibited by manufactured homes. By using a later edition of a guide, the assessor may undervalue the manufactured home.

Assess manufactured homes at the lesser of the factored base year value or the current market value.

The assessor does not annually review manufactured home assessments for declines in value. Once a base year value for manufactured homes is established, the assessor adjusts it by the annual inflation factor each year.

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 the assessor is not required to reappraise all properties *each* year, he should develop a program to periodically review the assessments of manufactured homes to ensure that declines in value are recognized accurately and consistently.

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 (the difference between general aircraft and certificated aircraft is discussed below). Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the Board. Section 5364 requires the Board to establish such standards. On January 10, 1997, the Board 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 Tulare County Assessor's Office assessed 542 aircraft on the 2005-06 assessment roll with a total assessed value of \$52.4 million. The following table details the recent aircraft assessment history for Tulare County:

ROLL YEAR	AIRCRAFT ASSESSMENTS	ENROLLED VALUE
2004-05	527	\$44,063,301
2003-04	515	\$52,922,458
2002-03	480	\$51,355,907
2001-02	458	\$51,125,104

An auditor-appraiser is responsible for valuing general aircraft. The auditor-appraiser mails an aircraft property statement each year to the known owner of each aircraft in the county. The form lists the aircraft and requests the owner to report added or deleted equipment, engine air 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 sales tax, 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

Field situs checks are made on a case-by-case basis according to taxpayer claims of deferred maintenance, airworthiness, or other special circumstances.

The assessor obtains *Airport Tenant Reports* from the city, county, and private airports in the county. If the assessor determines that the aircraft should be assessed in Tulare County, the assessor adds the owner for the current year and mails an aircraft statement to him or her.

We reviewed several aircraft property statements and found the discovery procedures to be correctly administered and the estimates of value to be properly calculated.⁶

Certificated Aircraft

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

Tulare County has one major commercial airline with an allocated value of about \$144,000 subject to local assessment. One auditor-appraiser is responsible for this assessment. This commercial airline does not meet the criteria for a mandatory audit. We found no problems with the certificated aircraft assessment program.

Historical Aircraft

Aircraft of historical significance can be exempt 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.

⁶ (All prefixes are 820) 018-083-000, 017-018-000, -17-018-000, 015-017-000, 011-094-000, 008-069-000, 002—076, 012-076-000, 016-026-000, 016-026-000, 019-003-000, 019-005-000, 019-069-000, 019-088-000.

The following table shows the number of historical aircraft exemptions granted and their exempt value for recent years:

ROLL YEAR	HISTORICAL AIRCRAFT EXEMPTIONS	EXEMPTED VALUE
2004-05	46	\$3,285,320
2003-04	52	\$4,431,450
2002-03	38	\$3,925,888
2001-02	17	\$3,135,800

We reviewed several declarations of historical aircraft claimants and found no problems.

Vessels

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

The assessor valued 7,041 vessels on the 2005-06 assessment roll with a total assessed value of approximately \$35.8 million.

Tulare County has no documented vessels. The following table shows the number of vessels assessed and their assessed value for recent years:

ROLL YEAR	VESSELS	ASSESSED VALUE
2005-06	7,041	\$35,793,070
2004-05	6,802	\$32,370,881
2003-04	6,536	\$30,168,365
2002-03	6,215	\$27,751,095
2001-02	6,008	\$26,094,082

Three auditor-appraisers are responsible for administering the assessor's vessel program. One auditor-appraiser is assigned as the lead person every appraisal year. The primary sources of discovery used by the Tulare County Assessor are DMV reports, prior vessel statements, and referrals from other counties. All vessels on the assessment roll are valued at less than \$100,000; therefore, the annual property statement filing requirements pursuant to section 441 are not applicable.

The assessor sends questionnaires to new vessel owners and to vessel owners bringing their vessels into Tulare County. Vessels with no returned questionnaires are valued and enrolled using the information available. We found no penalties assessed on any non-Board-prescribed property statements.

The assessor uses the *National Automobiles Dealers Association Small and Large Boat Appraisal Guide* (NADA), a recognized value guide, to appraise vessels. If current or reliable information is not available in the value guide, the assessor may use the values of similar vessels within his own database, the owner's declared purchase price, or verifiable market data, plus sales tax. The assessor does not use Board forms to discover vessels, but uses county-developed forms. However, he correctly does not apply penalties for taxpayers who fail to return the county-developed forms.

After the first year vessels are assessed, the assessor places them on a direct billing program. Taxpayers are sent a notice of proposed assessment based on 5 percent depreciation over the previous year's assessment and given the opportunity to respond. If there is no response, the vessels are then enrolled at the proposed assessment.

Animals

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

Show horses are one of the few types of animals subject to property taxation. Show horses and other horses that are not exempt are assessed as personal property in the same manner as other items of personal property. The assessor annually sends the *Registered and Show Horse Statement* (Form BOE-571-F2) to approximately 70 owners of taxable show horses.

We reviewed the procedures for assessing taxable show horses and found that the program is being administered correctly.

APPENDIXES

A. County-Assessed Properties Division Survey Group

Tulare County

Chief

Dean Kinnee

Survey Program Director:

Arnold Fong

Principal Property Appraiser

Survey Team Supervisor:

Bob Reinhard

Supervising Property Appraiser

Survey Team Leader:

Carlos Zaragoza

Senior Specialist Property Auditor-Appraiser

Survey Team:

Robert Donay

Associate Property Appraiser

Paula Eagleman

Associate Property Appraiser

Nick Winters

Associate Property Appraiser

Lloyd Allred

Associate Property Auditor-Appraiser

Jeffrey Arthur

Associate Property Auditor-Appraiser

Erica Fisher

Office Technician

Kristina Valdez

Tax Technician I

B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of records; appraisal data not public.

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

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

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

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

15642. Research by board employees.

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

15643. When surveys to be made.

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

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

The Tulare County Assessor's response begins on the next page. The Board has no comments on the response.

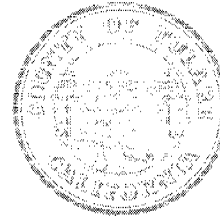
Gregory B. Hardcastle, C.P.A.

**ASSESSOR/CLERK-RECORDER
COUNTY OF TULARE**
County Civic Center
Visalia, California 93291-4593
FAX (559) 737-4468

February 25, 2008

Roland P. Hill
Assistant Assessor/Clerk-Recorder

**State Board of Equalization
County-Assessed Properties Division
Attn: Dean R. Kinnee, Chief
P.O. Box 942879
Sacramento, CA 94279-0063**



Re: Assessor's Response – Assessment Practices Survey Report – 2008

Dear Mr. Kinnee:

Pursuant to Government Code Section 15645, Tulare County wishes to respond to the recommendations of the aforementioned report. Please include our responses attached to this letter, to the final report.

We wish to express our thanks and appreciation to the SBE's survey crew who conducted themselves professionally and courteously during the survey.

We also desire to thank our employees for the quality level of work they perform for the citizens of our County. Times are very difficult for the counties in California, and we are all very fortunate to have employees who are truly dedicated to produce a quality work product with extremely limited financial resources and unprecedented workloads.

Respectfully submitted,

Gregory B. Hardcastle
**Gregory B. Hardcastle
Assessor/Clerk-Recorder
County of Tulare**

RECOMMENDATION 1:

Request taxpayers send appeal withdrawal letters directly to the clerk of the assessment appeals board.

Response:

The assessor will initiate the recommended change of procedure to have the property owners send Assessment Appeals Board withdrawal letters directly to the Assessment Appeals Board Clerk.

RECOMMENDATION 2:

Obtain fire reports for local fire departments to discover property damaged or destroyed by a misfortune or calamity.

Response:

As of December 31, 2007, the Assessor had in place the procedures for receiving reports from the County's established fire departments per the SBE's recommendation.

RECOMMENDATION 3:

Improve the welfare exemption program by: (1) performing field inspections of all property for which the welfare exemption is claimed, and (2) sending written notice when denying a welfare exemption claim.

Response:

The Assessor has initiated changes in the welfare exemption program, per the SBE's recommendation, to include field inspections on welfare exemptions; and, sending written notification of welfare exemption denials.

RECOMMENDATION 4:

Improve the new construction program by: (1) obtaining permits for new construction for all issuing agencies, and (2) assessing all new construction not exempted by statute or ordinance.

Response:

The Assessor will initiate revised procedures that will include receiving reports from all known permit-issuing agencies for the purpose of reviewing and discovering assessable activities; and, we will field check, as needed, for the purpose of ensuring compliance of assessing all new construction not exempted by statute or ordinance.

RECOMMENDATION 5:

Revise the notice informing assesses of an increase in a property's full cash value to include the information required by section 619(c)

Response:

This recommendation has been made before (2002 Practice Survey). As before, we must respond that, due to our very limited property management systems capabilities, we are still unable to provide the data set forth in R&T Section 619 of our value notices. We do not currently have the capability to include the mandated data on our notices.

RECOMMENDATION 6:

Improve the CLCA program by: (1) assessing vineyard trellising on lands under CLCA contract as unrestricted improvements, (2) issuing supplemental assessments when the construction of trellising is completed, (3) assessing restricted land improvements on CLCA properties pursuant to section 423, and (4) developing appropriate risk rate component for CLCA properties.

Response:

- (1) The Assessor disagrees with the SBE methodology regarding trellising. We assess those items separately until the vines themselves come out of the exempt period, and then include them in the value assigned to the growing improvements. We feel that trellising is an integral component of the vines value, are removed when vines are removed and the income of the vines is dependant on, and not independent of the trellising. We have held this position since the inception of the Williamson Act.
- (2) SBE Staff is apparently not aware that trellising construction takes place over the course of the first several years of the vines' life. Trellising is generally in partially complete condition on each lien date and not subject to supplemental assessments. By the time all components of the trellising are finally installed, the vines are assessable. Because Tulare County includes the contributing value of the trellising in the growing improvement value at that point, there is no supplemental assessment made.
- (3) The Assessor's methodology in the valuation of dairy grading resulted from a total lack of reliable dairy rental information. However, we will attempt to discover economic rent information for these properties and apply it appropriately in the future.
- (4) It is the Assessor's opinion that "risk" is reflected in the cash rents that are charged for different types of crops or land uses, and it would be inappropriate to add an additional risk component to the capitalization rate. Farmers are well aware of the risks involved in growing crops, and will not pay an inflated rental amount if it did not cover the risk liability. Also, with our current CLCA calculation program, we are limited in applying different risk rates. Even if we could determine from the market that different risk rates that were appropriate for different crops/varieties, we have data processing restrictions, and we can apply only one risk rate for all growing improvements.

RECOMMENDATION 7:

Assess all taxable possessory interests at the fairgrounds.

Response:

As stated in the 1995 Practices Survey response to same, we initiated commencing with the 1993/94 tax roll meaningful dialogue with the Tulare County Fairgrounds Management that has, over the course of the last 14 plus years, resulted in better reporting by the agency.

We rely greatly upon the reporting accuracy of the agency during the discovery process, and we have been of the understanding that the agency was reporting all pertinent information. We will endeavor, for all future tax years, to exercise more in depth reviews of this agency's reporting for the purpose of reviewing lease documents.

RECOMMENDATION 8:

Improve the water company assessment program by: (1) reviewing the lists of water systems from regulatory agencies to discover assessable water company properties, and (2) obtaining the articles of incorporation and other relevant property tax documents form each mutual water company.

Response:

Time and resources permitting, we will endeavor to obtain reports issued by the pertinent agencies in order to discover assessable water company properties; and, we will make every effort possible to acquire the articles of incorporation and other pertinent relevant documents from each mutual water company.

RECOMMENDATION 9:

Modify manufactured home assessment procedures by: (1) using the correct edition of the manufactured home valuation guides and (2) assessing manufactured homes at the lesser of the factored base year value or the current market value.

Response:

The Assessor has every desire to issue an accurate and fair assessment on all manufactured home assessments. We will monitor our procedures more closely, and change our practices if necessary in order to accomplish this goal. As correctly stated by SBE staff in the body of the 2007 Practices Survey, the Assessor is not required to reappraise all properties each year. However, in order to prevent manufactured homes form being assessed at more than the current market value, we will initiate investigation into developing a review process that periodically conducts assessed value versus market value comparisons for manufactured housing.