CONTRA COSTA COUNTY ASSESSMENT PRACTICES SURVEY

FEBRUARY 2000

CALIFORNIA STATE BOARD OF EQUALIZATION

JOHAN KLEHS, HAYWARD	FIRST DISTRICT
DEAN ANDAL, STOCKTON	SECOND DISTRICT
CLAUDE PARRISH, TORRANCE	THIRD DISTRICT
JOHN CHIANG, LOS ANGELES	FOURTH DISTRICT
KATHLEEN CONNELL, SACRAMENTO	STATE CONTROLLER

E. L. SORENSEN, JR., EXECUTIVE DIRECTOR

STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION
PROPERTY TAXES DEPARTMENT
450 N STREET, MIC: 63, SACRAMENTO, CALIFORNIA
(PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0063)
TELEPHONE (916) 445-1516
FAX (916) 323-8765
www.boe.ca.gov

JOHAN KLEHS
First District, Hayward

DEAN ANDAL
Second District, Stockton

CLAUDE PARRISH
Third District, Torrance

JOHN CHIANG
Fourth District, Los Angeles

KATHLEEN CONNELL
State Controller, Sacramento

E. L. SORENSEN, JR.
Executive Director

February 18, 2000

No. 2000/016

TO COUNTY ASSESSORS:

CONTRA COSTA COUNTY
ASSESSMENT PRACTICES SURVEY

Here is the Contra Costa County Assessment Practices Survey Report. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The assessor was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained in the report. This report, the county assessor's response, and the County Property Tax Division's (CPTD) comments regarding the response, constitute the final survey report which is distributed to the Governor, the Attorney General, the State Legislature; and the county's Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey of the Contra Costa County Assessor's Office was conducted by CPTD from February through July 1998. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The Honorable Gus S. Kramer, the Contra Costa County Assessor, and his staff gave us their complete cooperation during the assessment practices survey. We gratefully acknowledge their patience and good spirit during the interruption of their normal work routine.

We invite your comments and exchanges of information, for we feel that these surveys can only be helpful in a mutually cooperative atmosphere.

Sincerely,

Richard C. Johnson
Deputy Director
Property Taxes Department

RCJ:jm

TABLE OF CONTENTS

INTRODUCTION **1**

SCOPE OF SURVEY **2**

EXECUTIVE SUMMARY **3**

Recommendations *4*
Suggestions *5*

OVERVIEW OF CONTRA COSTA COUNTY **6**

Assessment Program *6*
Sample Program *6*

ADMINISTRATION **8**

Budget and Workload Analysis *8*
Assessment Appeals *9*
State-County Property Tax Administration Program *10*
Training *11*

ASSESSMENT OF REAL PROPERTY **13**

Introduction *13*
Change in Ownership *14*
New Construction *17*
Declines in Value *19*

VALUATION OF SPECIFIC REAL PROPERTY TYPES **21**

California Land Conservation Act Properties *21*
Taxable Government-Owned Properties *21*
Intercounty Pipeline Rights-Of-Way *22*
Possessory Interests *22*
Manufactured Homes *23*
Leasehold Improvements *24*

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES **26**

Introduction *26*
Audit Program *26*
Equipment Index Factors *27*
Business Property Statement Processing *28*

VALUATION OF SPECIFIC PERSONAL PROPERTY TYPES **30**

Computers *30*
Racehorses *30*
Leased Equipment *31*

APPENDIX A: RELEVANT STATUTES AND REGULATIONS **32**

Government Code *32*
Revenue and Taxation Code *34*
Title 18, California Code of Regulations *37*

APPENDIX B: THE ASSESSMENT SAMPLING PROGRAM **39**

APPENDIX C: COUNTY PROPERTY TAX DIVISION SURVEY GROUP **42**

APPENDIX D: ORGANIZATION CHART **43**

ASSESSOR'S RESPONSE TO BOARD'S FINDINGS **44**

INTRODUCTION

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

The assessment practices survey program is one of the major State efforts to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (Board) is required to periodically review (survey) every county assessor's office and publish a report on the survey findings. This report reflects the Board's findings in its periodic survey of the Contra Costa Assessor's Office.

The assessor is required by law to file with the board of supervisors a response that indicates the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly, and to the Contra Costa County grand jury and assessment appeals board. The response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. (The assessor elected to file his initial response prior to publication; the response is included in this report following the appendixes.)

Management audit reports typically emphasize problem areas, with little said about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas. However, assessment practices survey reports also contain information required by law (see *Scope of Survey*) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

SCOPE OF SURVEY

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

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

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

This survey also included an assessment sample of the 1997/98 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in the Appendix B.

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

[1] All statutory references are to the Revenue and Taxation Code unless otherwise indicated.

EXECUTIVE SUMMARY

- We made 14 recommendations in our 1992 survey. We found that the assessor failed to implement only one of these recommendations. That recommendation concerns the use of unapproved change-in-ownership statements and consequent improper failure-to-file penalties, and we repeat the recommendation in this report.
- Assessment appeals procedures have been greatly improved. Also, a new computer program allows better coordination of scheduling of appeals with the appeals board.
- The assessor used funding from the State-County Property Tax Administration Program to reduce backlogs in several key areas. The assessor met the performance requirements specified in the contract, so the county will not have to repay the funds to the state.
- Mandatory training requirements have been met by the assessor's staff.
- The assessor continues to use unapproved change-in-ownership statements and continues to apply unauthorized penalties for failure to file those statements. Otherwise, the change-in-ownership program is effective and efficient.
- For the new construction program, the assessor implemented a property owner self-reporting program, a field canvass to discover escaped new construction, and computer assisted drawing programs. We suggest recording all permits in the system and obtaining copies of permits from the county environmental health department.
- The assessor has an active program for discovering properties that have declined in value. He is working with an outside consultant to develop a mass appraisal computer program to review large residential areas.
- The California Land Conservation Act program has been computerized; this allows the staff to easily process assessments for these types of property.
- Taxable government-owned properties are assessed correctly. The program includes a review of each appraisal by the standards division.
- Pipeline easements are assessed correctly. The easements are tracked with a newly written computer program.
- Low-value possessory interest assessments not enrolled. Since the assessor has no authority to exempt them from taxation, we recommend that he assess all taxable possessory interests.
- Manufactured homes are improperly classified as real property; they should be classified as personal property.
- We did not find any errors in assessments of leasehold improvements. However, we suggest implementation of a positive response system as an additional means of preventing escapes and double assessments.
- Mandatory audits are completed timely. We suggest physical inspection of the property and verification of the supplies account for every audit.

- Business property statement processing is expedited with an innovative bar code scanning system. The assessor's staff uses locally developed index factors for equipment and BOE-approved valuation factors for computers. The staff reviews leased equipment listings supplied by the Board (BOE Form 600-B) to ensure that locally-assessable property leased by state assessors is assessed correctly.
- Racehorse assessment procedures need revision. The assessor does not mail racehorse tax return forms to owners or audit the tax records of appropriate racehorse owners as required by rule 1045.
- Despite the problems noted above, we found that most properties and property types are assessed correctly. We attribute this to the proactive efforts of the assessor and his management team to discover and resolve issues. Examples include the establishment of the business division to manage the assessment of very large, complex properties, the extensive policy and procedures manual, and the internal audit function of the standards division. All of these programs promote consistency and uniformity in assessment, as well as cooperation among the operating divisions.
- The county assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 1997-98 assessment roll indicated an average assessment ratio of 98.07 percent, and the sum of absolute differences was 2.78 percent. Accordingly, the Board of Equalization certifies that Contra Costa County is eligible to continue receiving reimbursement of costs associated with a administering supplemental assessments.

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

RECOMMENDATIONS

RECOMMENDATION 1: ***Apply the penalty prescribed in section 482 only if the BOE-approved statement form is not returned within 45 days……14***

RECOMMENDATION 2: ***Assess all taxable possessory interests…….23***

RECOMMENDATION 3: ***Classify and enroll manufactured homes as personal property…….24***

RECOMMENDATION 4: ***Revise the racehorse assessment procedures by (1) mailing racehorse forms to taxpayers and (2) complying with statutory record keeping and audit requirements...30***

SUGGESTIONS

SUGGESTION 1: ***Revise the permit processing program by (1) recording all permits in the database and (2) requesting copies of all permits issued by the county environmental health department…….18***

SUGGESTION 2: ***Implement a positive response system to ensure coordination between the business property and real property staff…….25***

SUGGESTION 3: ***Improve the audit program by (1) performing physical inspections on every audit and (2) verifying the supplies accounts when performing audits……27***

OVERVIEW OF CONTRA COSTA COUNTY

ASSESSMENT PROGRAM

Since our previous survey, the office has undergone significant personnel turnover, including the assessor and most of the upper management and senior auditor-appraisers; yet we found the overall program improved. We attribute this improvement to highly effective management, as well as the dedication and professionalism of the staff. Daily audit and appraisal functions are managed by three principal appraisers who report to the assistant assessor of administration who, in turn, reports to the assessor. (At the time of the fieldwork, the assistant assessor of valuation position was vacant. It has since been filled.)

The assessor's office is structured to efficiently complete assessments of all property types. In fact, the business division is uniquely organized so that commercial and industrial real property appraisers are combined with business property auditor-appraisers, under a principal appraiser. The combined staff gives the assessor the ability to easily coordinate appraiser and auditor-appraiser appraisals of very large and complex properties, such as oil refineries.

An extensive policy and procedures manual directs assessment activities. This manual not only guides the employees on how to complete a task but also delineates task responsibility. Employees are also directed through staff meetings and close supervision.

In our last report, we noted that the standards division staff was assigned responsibility for evaluating the assessor's overall program. Currently the standards division staff reviews assessor functions and identifies program risks by conducting internal operational audits. This proactive approach, as well as other good management practices, explain why the Contra Costa County Assessor's Office has improved and continues to improve its overall program.

SAMPLE PROGRAM

The statistics derived from BOE's assessment survey of the 1997-98 Contra Costa County local assessment roll indicate the overall quality of the roll for that year. The BOE sampled 328 roll entries. We found 28 of these sampled roll entries were appraised by BOE staff at values different from the values determined by the assessor's staff (15 were underassessed and 13 were overassessed). These sample item differences, expanded by statistical measurement to represent all real and personal property assessed on the 1997-98 local roll, indicate that about 13,421 properties were underassessed by approximately $1,627,490,965, while about 13,596 properties were overassessed by approximately $295,264,982.[2]

[2] BOE Sampling Survey Results Report

Estimated Difference Between The BOE's Expanded Sample Value And County's Local Roll Value For Sampled Roll Items

	Number Of Sample Items	Number Of Assessments	County's Assessed Value	Net Difference Between County And BOE	Percentage Net Difference
Total	**328**	**351,875**	**$67,739,107,408**	**-$1,332,225,983**	**1.9**

Types Of Value Differences

			Type Of Difference	
	County's Assessed Value	**Difference Between County And BOE**	**Overassessment**	**Underassessment**
Total	**$67,739,107,408**	**-$1,332,216,984**	**$295,264,982**	**-$1,627,490,965**

When BOE's sample value is statistically expanded and the value differences (underassessment and overassessments) netted, the BOE's estimated value is $69,071,333,392 or $1,332,225,984 more than the county's local roll value of $67,739,107,408. The ratio of county values to BOE values is 98.07 percent.

The sum of the absolute value of the differences is $1,922,755,947 (overassessments of $295,264,982 plus underassessments of $1,627,490,965). The ratio of the absolute differences to the Board value is 2.78 percent ($1,922,755,947 divided by $69,071,333,392).

Section 75.60 requires that the BOE certify a county as eligible for the recovery of costs associated with administering supplemental assessments. In order for a county to qualify as an eligible county, it must achieve an average assessment level that is not less than 95 percent of the amount required by law as determined by the BOE through its assessment sampling program. In addition, for sampling for the 1996-97 fiscal year and subsequent fiscal years, the sum of the absolute values of the differences cannot exceed 7.5 percent of the legally required amount. Based upon our current assessment sampling for the 1997-98 assessment roll, the BOE certified Contra Costa County as an eligible county. This indicates that its assessment program meets the standards established by section 75.60.

ADMINISTRATION

BUDGET AND WORKLOAD ANALYSIS

The following discussion uses information from the BOE's *A Report on Budget and Workloads, and Assessment Appeals Activities in California Assessors' Offices*. This report is a compilation of data submitted annually by county assessors to the BOE's Policy, Planning, and Standards Division. The purpose of the following discussion is to provide a means of reviewing recent trends affecting the Contra Costa County Assessor's Office.

The following table shows that the assessor's gross budget has increased by approximately 4 percent in each of the last five fiscal years, except during the 1996-1997 fiscal year, when it increased by nearly 9 percent.

Assessor's Budget[3]

Budget Year	Gross Budget	Percent Change	Direction Of Change	PTAP Funds Received
1992-1993	$7,924,125			
1993-1994	$7,602,766	4.1%	Decrease	
1994-1995	$7,919,755	4.2%	Increase	
1995-1996	$8,240,069	4.0%	Increase	$2,022,000
1996-1997	$8,979,476	9.0%	Increase	$2,022,000
1997-1998	$9,308,621	3.7%	Increase	$2,022,000

Starting in the 1995-1996 fiscal year, the assessor received additional funds from the State of California under the State-County Property Tax Administration Program PTAP. This program, described in detail later in this report, provides loans tied to certain performance measures. If the performance measures are met, the loans are considered repaid.

Staffing And Workload[4]

The table below shows that the total number of permanent employees has remained fairly stable since the 1992-93 fiscal year. The workload, however, has increased. The economic downturn resulted in decreased property values, which in turn led to tremendous growth in decline-in-value assessments and assessment appeals.

[3] Gross budget totals are actual expenditures stated in Contra Costa's final budgets, except for the 1997-98 fiscal year. That total is the amount adopted by the county board of supervisors in that year's final budget. Actual gross expenditures were not available.
[4] Assessor's budget and workload statements.

Budget Year	Budgeted Permanent Positions	Transfers	New Construction	Declines In Value	Appeals Filed
1992-1993	128	21,677	15,813		2,093
1993-1994	126	19,905	14,107	20,468	3,937
1994-1995	126	20,135	12,113	23,988	8,653
1995-1996	126	17,805	10,911	37,836	5,393
1996-1997	128	25,564	20,412	60,231	8,037

With regard to business property, the table below indicates that about 52,000 business property statements are mailed each year. Completed mandatory audits have averaged 267 between 1994-94 and 1996-97.

Budget Year	Mandatory Audits Completed	Business Property Statements
1992-1993		54,417
1993-1994	244	55,234
1994-1995	293	52,443
1995-1996	281	52,705
1996-1997	252	52,113

Local Roll

Although a significant number of properties in Contra Costa County decreased in value during the previous five fiscal years, the following table shows that the overall roll value increased.

Budget Year	Total Net Roll Value	Total Roll Units
1993-1994	$63,672,280,000	352,458
1994-1995	$65,294,365,000	358,927
1995-1996	$67,146,462,000	354,989
1996-1997	$69,242,100,000	360,006
1997-1998[5]	$67,737,990,275	351,875

ASSESSMENT APPEALS

Overview

Since our last survey, the number of assessment appeal applications has gone up dramatically. In fiscal year 1991-92, 133 applications were filed. By 1996-97, that number had grown to 8,037.

[5] BOE's Sampling Survey Results Report.

Budget Year	Appeals Filed
1992-1993	2,093
1993-1994	3,937
1994-1995	8,653
1995-1996	5,393
1996-1997	8,037

Due to the increased assessment appeals workload, the assessor implemented management audits of the appeals process to document the process, highlight shortcomings, and recommend changes. The first audit was conducted in 1994 and was followed by additional audits in 1996 and 1998. These audits helped outline staff responsibilities and correct inefficiencies.

A new database program was written to manage the large number of appeals and coordinate scheduling of appeals with the appeals board. This computer program and other appeals process changes improved the coordination and cooperation between the assessor and the assessment appeals board. We commend the assessor's efforts to improve his management of the assessment appeals program and to cooperate with the appeals board to better coordinate the scheduling of the appeals.

Appeal Withdrawals

In our previous survey, we had disagreed with the assessor's practice of using sections 4831 and 51.5 to routinely change taxable and base year values in response to appeals. Because of ongoing problems with the assessment appeals board, the assessor's staff previously resolved many appeals with a withdrawal of the appeal and a roll correction to an agreed value instead of a stipulation. The assessor maintained that it was less expensive than the stipulation process under which the appeals board must approve or deny the change in value to a figure already mutually agreed upon by both the assessor and the taxpayer. (At that time the appeals board in Contra Costa County did not always agree to the stipulated agreement.)

Since our last report, section 4831 was amended to allow roll corrections for errors or omissions involving the exercise of a value judgment arising from a failure to reflect a decline in the taxable value within one year after the making of the assessment. Consequently, the assessor's methods are no longer in conflict with the Revenue and Taxation Code.

STATE-COUNTY PROPERTY TAX ADMINISTRATION PROGRAM

Under the provisions of section 95.31, Contra Costa County elected to participate in the State-County Tax Administration Program (PTAP). This program is basically a loan of state monies to individual counties for use in property tax administration. The county must enter into a contract with the State Department of Finance whereby the county agrees to enhance the existing property tax program. Those monies cannot be used to supplant an assessor's budget; the county must maintain a 1994-95 base level of staffing

and total funding. Originally, the program had loan elections for the years 1995, 1996, and 1997. Subsequently, loan elections were extended until the year 2000. Contra Costa County applied for and received loans in the amount of $2,022,000 for each of the fiscal years 1995-96, 1996-97, and 1997-98.

Contra Costa's contract with the Department of Finance provides that loaned amounts will be used to reduce the backlog of new construction assessments, assessment appeal cases, decline-in-value reductions, and nonmandatory audits. Meeting the agreed upon goals in the above-mentioned areas of assessment is considered repayment of the loan.

Goal achievement is to be measured, and the percentage of success for each of the county's goals is weighted, as follows: 15 percent for new construction assessments, 60 percent for appeal cases, 10 percent for decline in value reductions, and 15 percent for nonmandatory audits. If the total of all goals, weighted together, is 95 percent or greater, the loan is considered repaid. Any percentage less than 95 percent is multiplied by the loan amount and that portion of the loan amount is considered repaid by goal achievement.

Should any of the loaned funds not be spent, the county may return those monies to the state or carry them over to the next fiscal year for authorized uses. If the county fails to repay the loan, the Director of Finance shall notify the Controller, who shall take funds credited to the Motor Vehicle License Fee Account in the Transportation Tax Fund to which the county is entitled, and apply them to the general fund on behalf of the county in the amount of the required payment.

The loan agreement has specific reporting requirements. By March 31 of each fiscal year, an interim report prepared by the county assessor must specify the projected impact of funds on each goal. By August 15 of the following fiscal year, the county must submit to the State Department of Finance a listing of actual achievements for each goal and the average increment of assessed value change for goal achievement. This report must be verified by the county's auditor-controller.

The BOE's assessment practices surveys are one of the criteria the Department of Finance may consider when determining if the terms of repayment have been satisfied. Our survey objective was to review terms of the contract and the county auditor-controller's report. We found that the goals have been met and verified by the county auditor-controller.

TRAINING

The Revenue and Taxation Code contains specific continuing education requirements that must be met for a person to perform the duties of an appraiser for property tax purposes (sections 670 and 671). The BOE is charged with ensuring that these requirements are met.

Section 671 requires an appraiser to receive 24 hours of approved training each year in order to retain a valid appraiser's certificate. Advanced appraisers need only 12 hours of training each year.

To qualify for an advanced appraiser's certificate, one must have a minimum of six BOE courses with at least two classified as advanced. Outside courses that can be substituted

for a BOE advanced course include an Appraisal Institute course lasting longer than three days, or a college appraisal course.

Nearly 61 percent of the professional staff in the assessor's office have obtained an advanced appraiser's certificate. Employees are encouraged to attend internal and various external training classes or programs, as well as BOE classes. Those obtaining an advanced appraiser's certificate also receive a 1.5 percent salary increase. We commend the assessor's for a well managed training program.

ASSESSMENT OF REAL PROPERTY

INTRODUCTION

County assessors' programs for assessing real property include the following elements:

- Revaluing those properties that have been subject to change in ownership;
- Valuing new construction;
- Annually revaluing properties subject to constitutionally mandated valuation restrictions, such as agricultural preserves (CLCA lands) and timberland production zones properties (TPZ); and
- Valuing, as of the lien date, property that has experienced a decline in value (as authorized by article XIII A, section 2(b)).

In terms of assessed values, Contra Costa County is the seventh largest county in California, with over 350,000 roll units and a total roll value of almost $68 billion. Two divisions (residential division and business division) are responsible for appraising all real property. Each division is managed by a principal appraiser, both of whom report to the assistant assessor of valuation. Professional staff consist of two principal appraisers, seven supervising appraisers, 17 associate real property appraisers, 18 appraiser II's, and three junior appraisers.

The residential division is responsible for the assessment of single and multi-family residential, as well as rural or agricultural properties. The business division is responsible for the appraisal of all commercial and industrial properties.

The business division is unique among major assessors' offices. It includes the audit section that appraises business and personal property, and real property appraisers who appraise the commercial/industrial property. In most other large California counties the business property or audit section is a separate unit from the real property division.

Each division assigns real property assessment responsibilities geographically by mapbooks. The residential division consists of four crews and the business division consists of three crews. In addition to their geographic assignments, some appraisers are also responsible for the countywide appraisal of specialized property types.

Anticipating the retirement of most of his managerial and supervisory personnel as well as a large percentage of senior professional and clerical staff, the previous assessor created a task force to find solutions to the upcoming staff shortages. Management vacancies that eventually occurred were filled by promoting experienced in-house staff appraisers. To fill vacancies created by departing senior professional staff, the current assessor successfully recruited, mainly from other assessors' offices, five associate appraisers and a senior auditor-appraiser. They brought to the assessor's office a significant range of appraisal knowledge and experience. Five more appraisers, four of which are from private industry, were also recruited as junior appraisers.

CHANGE IN OWNERSHIP

Section 60 defines a 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 interest. Properties with certain types of ownership change require the assessor to determine and enroll the property's market value as of the date of change of ownership.

Discovery

Assessors have various methods of discovering properties that have changed ownership. Most involve examining documents recorded at the county recorder's office. Typically, documents such as grant deeds and trust deeds provide the information necessary to determine whether a particular property changed ownership.

Document Processing

In Contra Costa County, clerks in the standards division pick up deeds, Preliminary Change of Ownership Reports (PCOR), and other documents from the county recorder's office each work day. Once the appropriate documents are copied, the deeds are processed by a deed processing staff consisting of two senior clerks, one lead specialist, and one supervisor. This staff is responsible for verifying information on the deeds, such as the legal description, assessee's name, address, property type (commercial, residential, vacant land), and type of deed (grant deed, quitclaim deed, etc.).

An associate appraiser examines the deeds and determines whether a property has in fact changed ownership and assigns to the deed a field code, which identifies whether the property needs to be reappraised. If a reappraisal is indicated, the transfer clerks will forward a copy of the deed, the PCOR, and the building record to the appropriate real property division. The original copy of the deed is filed for future reference.

Change In Ownership Reporting

Section 480.3 requires that the transferee complete a Preliminary Change of Ownership Report (PCOR) or pay an additional recording fee of $20. The transferee usually completes this form at the time the deed is recorded. Section 480 provides that those transferees are required to provide information relative to the transfer by filing a Change in Ownership Statement (COS) if the assessor requests the transferee to do so in writing. One major difference between the PCOR and COS is that penalties can be levied for not returning a completed COS (after written request from the assessor). Penalties prescribed by section 482 are the greater of either $100 or 10 percent of the taxes applicable to the base year value resulting from the transfer, but not to exceed $2,500.

RECOMMENDATION 1: ***Apply the penalty prescribed in section 482 only if the BOE-approved statement form is not returned within 45 days.***

The assessor applies the section 482 penalty whenever a property owner does not return the COS. The assessor uses three different COS forms. One questionnaire is for land and residential properties, another for apartments, and a third for commercial and industrial

properties. The county does not use the BOE-approved change in ownership statement. The assessor's forms differ from the BOE's in three ways:

1. The "Important Notice" appears on the back of the county form on a tear-off portion at the bottom.
2. The county does not have the check-off "transfer information" as shown on the BOE's form (Part I).
3. The "purchase price and terms of sale" information on the county form (Part III on the AH 502) do not conform to the BOE's form.

Section 482 provides that if a person fails to file a COS within 45 days after a written request by the assessor, the assessor shall add a penalty to the assessment made on the roll. However, penalties can be added only if the assessor uses a form approved by the BOE. Since the assessor does not use a BOE approved form, he cannot apply the section 482 penalty.

We recommend that the assessor either use a BOE-approved form when adding the section 482 penalty to the assessment roll or refrain from applying the penalty if he continues to use his own form.

Legal Entity Ownership Program (LEOP)

Section 64(c) provides that a change in control of any legal entity is a change in ownership of all real property owned by the legal entity, as of the date of change in control. Discovery of real property affected by a change in control can be difficult because ordinarily there is no recorded notice of an ownership transfer in legal entities.

While notices of change in control of legal entities may appear as a matter of interest in newspapers, magazines, trade journals, and financial subscription services, they often do not appear in official county records. However, the BOE's Legal Entity Ownership Program (LEOP) staff learns of these changes in control through responses to questions appearing on corporate and partnership income tax returns filed with the State Franchise Tax Board as well as other public documents.

The LEOP section transmits to each county a listing, with corresponding property schedules, of legal entities that have reported a change in control. The report includes the names of acquiring entities, the date the change in control occurred, the parcels involved, and whether the property was owned or leased on the transfer dates. While each of the reported change in control transactions are investigated and verified by LEOP staff, accuracy of the reported data is not guaranteed. County staffs are advised to thoroughly research each named entity's holdings to ensure that all affected parcels are identified and properly assessed.

We randomly checked 60 properties on the LEOP list sent to Contra Costa County and found no errors pertaining to identification and change in ownership enrollment. We also cross-checked the corresponding business property statements and found that most did not indicate a change in control. However, we found that the standards division was already aware of the changes in control and had taken the appropriate action. Based on our review, the assessor's staff is properly processing changes in control of legal entities.

Parent/Child Transfers and Base Year Value Transfers

Section 63.1 excludes from change in ownership for property tax purposes the purchase or transfer, on or after November 6, 1986, of the principal residence and the first $1 million of other real property between parents and children when a claim is timely filed. Generally, such claims must be filed within three years of the purchase or transfer sought to be excluded, or prior to the transfer of the real property to a third party, whichever is earlier. Even if no claim is filed by either of these dates, prospective relief may still be granted if a claim is filed within six months after the date of mailing of a notice of supplemental or escape assessment issued as a result of the purchase of real property for which the claim is filed.

Section 69.5 generally allows qualified homeowners 55 years of age or older to transfer the base-year value of their present principal residence to a replacement dwelling that is purchased or newly constructed within two years of the sale of the original property, provided a claim is timely filed. Such claims must be filed within three years of the purchase or completion of the new construction of the replacement dwelling.

The assessor's staff follow written procedures in the processing of section 63.1 and 69.5 claims. The procedures detail how to properly process properties eligible for treatment under sections 63.1 and 69.5. At present, the county does not have an ordinance that would implement the intra-county provision of section 69.5. For the 1997-98 roll the county processed 2,229 section 63.1 claims with 279 denials. Approximately 650 section 69.5 claims were also processed.

We found the assessor's procedures for handling applications for treatment under either section 63.1 or 69.5 to be consistent with the law and BOE guidelines. We found that the applications and other related documents for these two programs are carefully reviewed by the assessor's staff. Those property owners who do not qualify are properly denied, while those who do qualify are processed timely.

Direct Enrollment Program

After the deeds are processed, a transfer analyst reviews all residential transfers to determine if they meet the requirements for direct enrollment. Requirements include confirmation of the purchase price with a PCOR or COS and that the transfer be an arms-length transaction. The assessor's direct enrollment program is for residential properties and allows the assessor to directly enroll indicated values from the transfer documents without a field review. Approximately 60 percent of all residential transfers are directly enrolled.

We found that the assessor's direct enrollment program is efficient and allows more appraisal time for the more difficult assessments.

Partial Interest Transfers/Valuation Procedure

When a fractional or partial interest on a property transfers, that portion changing ownership is revalued and a new base year established as of the date of transfer. That portion that did not transfer retains its existing base year value. Both are combined for a total assessed value.

The assessor has developed a new computer program for calculating and valuing partial interest transfers. The program contains all partial interest base year values. Therefore, the processing of additional partial interest transfers require only the addition of the latest event date and value.

We found the program to be expedient and very effective for tracking and valuing partial interest transfers.

NEW CONSTRUCTION

Introduction

Section 70 defines “newly constructed” and “new construction” as any addition to real property, whether land or improvements (including fixtures), since the last lien date; and any alteration of land or any improvement (including fixtures) since the lien date which constitutes a major rehabilitation thereof or which converts the property to a different use. When real property undergoes new construction, section 71 requires the assessor to determine the added value of the new construction upon completion or, if incomplete, the value as of the lien date.

Building permits are the primary means of discovering new construction. However, when a property owner does not obtain a permit for new construction, assessors can use other methods of discovery. For example, appraisers can watch for signs of new construction during regular fieldwork, inspect recently transferred properties, or canvass neighborhoods.

In Contra Costa County there are 16 city and county agencies responsible for regulating construction and issuing building permits. This includes the County Department of Environmental Health, which issues permits for water wells and waste disposal systems. Combined, these agencies issued in excess of 24,000 permits for the 1997-98 fiscal year.

Annual Building Permit Totals

Calendar Year	Total Permits	Annual Increase
1994	21,789	
1995	21,987	0.91%
1996	23,891	8.66%
1997	24,565	2.82%

The assessor’s office receives electronic or hard copies of permits on a monthly or bi-monthly basis from the various issuing agencies. However, building permits are not regularly received from the County Department of Environmental Health.

Once the permits are received, they are the routed to a clerk who verifies the parcel number and the owner’s name and address. The clerk screens the permits and removes those for nonassessable new construction or those that include construction work covered by another permit.

Once permits are removed, no permit data is retained. The clerk routes all sign permits to the business division as a means of notifying them of a potential new business. Data from the remaining permits are entered into a computer database and a monthly edit list is generated for management review.

For residential permits the computer system creates mailing labels. These are attached to a building permit questionnaire (BPQ) that is mailed to the property owners. The BPQ's for new homes are mailed 90 days from the permit date. When a BPQ is not received within 60 days, the computer will generate a second BPQ. Whether a third questionnaire is sent is left to the discretion of an appraiser. Commercial and industrial appraisers generate their own new construction questionnaires and make personal contact either by phone or in person at the time of field inspection.

Once the BPQ is received, a clerk compiles a work file for the appraiser. This file will include the building record, building permit, and BPQ. The work file is sent directly to the appraiser's supervisor for assignment. Both residential and commercial-industrial appraisers are responsible for the review and valuation of all new construction within their assigned geographical areas. When the permit work is complete the appraiser will value the new construction. This value is reviewed by the supervisor and sent to data entry for input.

SUGGESTION 1: ***Revise the permit processing program by (1) recording all permits in the database and (2) requesting copies of all permits issued by the county environmental health department.***

Permit Database

Most permits determined by the clerk to be non-assessable new construction are discarded. They are not sent to an appraiser for review and there is no record kept of them. This is unfortunate because sometimes individual phases of new construction may not be considered assessable, but when viewed together, could constitute assessable new construction.

The appraiser should be aware of all permits when making an appraisal decision. A history of permit activity could influence quality and condition estimates, and an accumulation of permits on a particular property could aid in timely discovery of new construction.

We suggest that data from all permit activity be entered into the database.

County Department of Environmental Health

The County Department of Environmental Health issues almost 200 permits each year for the installation of septic systems and private water wells. Obviously, this would be an excellent new construction discovery source. However, the assessor does not receive copies of these permits. We suggest the assessor request copies of these permits.

Property Inventory Program (PIP)

The assessor has used PTAP funds to reinstate the property inventory program (PIP). This program uses staff to discover escaped new construction and to verify and update appraisal records by canvassing neighborhoods.

A residential PIP crew was formed to implement this program for the 1996-97 fiscal year. The crew canvassed the residential neighborhoods by tract areas and looked for miscellaneous improvements completed without a permit. The canvassing was directed toward homes newly constructed in the previous three to ten years. Areas included subdivisions in Alamo, Antioch, Danville, Hercules, Pinole, San Ramon, and Walnut Creek.

Six full-time junior appraisers visited 3,486 properties and discovered over 1,300 new assessments. Escaped new construction included but was not limited to decks, patios, hot tubs, and patio covers. These discoveries added approximately $5 million to the 1996-97 tax roll.

The assessor's primary goal was to ensure an accurate database for sales and transfers. The canvassing program was repeated for the 1997 roll. A total of 2,361 assessments appraised at $11 million were added to the 1997-98 roll.

Self-Reported New Construction

The assessor has a self-reporting assessment program for selected types of minor new construction such as small additions, alterations, and miscellaneous structures. This program reduces the costs of assessing low-value new construction and maximizes the assessor's limited resources. A questionnaire requesting specific data from property owners is mailed out for qualifying permits. Once it is returned, it is used to do a desk appraisal.

Computer-Assisted Drawing Program

The assessor's office uses a computer program to draw and compute the square footage of residential structures. A real property technician produces the drawings from building plans submitted with building permits. When the drawings are complete, they are placed in the appraisal file and flagged as new construction for review by an appraiser.

When a field inspection of the property is made, the appraiser has a file with a complete drawing and area computations. During the inspection, the appraiser verifies the accuracy of the drawing. If there is a discrepancy, a revision to the computer generated drawing is made by the technician.

DECLINES IN VALUE

Section 51 requires the assessor to value taxable real property at the lesser of either its base year value, adjusted annually for inflation, or its current market value, as defined in section 110. Most assessors make a significant effort to monitor market trends and individual property situations in order to recognize when current market values drop below factored base year value.

Property values in many areas of California have declined or stagnated in the past several years due to economic conditions. As a result, assessors have had to make decline-in-value reductions in unprecedented numbers. The Contra Costa County Assessor is no exception. He considers the recognition of declines in value to be a top priority. Numerous press announcements and public appearances by the assessor have been made

to notify taxpayers of their right to have their property values reviewed and, when appropriate, lowered.

In early 1998, the assessor's staff monitored about 57,000 properties that were identified as "declines-in-value." Staff gather and analyze economic data and value trends in order to identify properties that have declined in value. These properties must be monitored annually to determine if and when their current market value exceeds factored base year value.

Due to the large number of properties involved, larger counties have implemented computer based decline-in-value programs. Contra Costa does not have such a program, but the assessor is working with an outside consultant to develop one for the purpose of reviewing all 1998-99 residential property. We believe that the assessor is handling decline-in-value assessments effectively.

VALUATION OF SPECIFIC REAL PROPERTY TYPES

CALIFORNIA LAND CONSERVATION ACT PROPERTIES

An agricultural preserve is established by contract between a landowner and a city or county pursuant to the California Land Conservation Act of 1965 (Williamson Act). Lands under contract are valued on the basis of agricultural income-producing ability, including any compatible use income (e.g. hunting), and are assessed at the lowest of this restricted value, the current fair market value, or the factored base year value, as defined in section 110.1 of the Revenue and Taxation Code.

For the 1997-98 lien date, Contra Costa County had 57,774 acres (462 parcels) encumbered by 152 CLCA contracts, of which 57 parcels were in nonrenewal status. The total restricted value enrolled was $67,053,825. During 1996-97 there were 58,899 acres encumbered by CLCA contracts, or 2 percent more acres than on the 1997-98 roll.

CLCA properties in Contra Costa County are primarily grazing and dry farm lands. Only seven parcels have living improvements. The CLCA assessment program is completely computerized, including the annual recalculation of nonrenewal values and the comparison of current restricted value, factored base year value, and current unrestricted market value.

We found that the assessor has a well designed and effective computerized CLCA program that accurately calculates restricted land and living improvement values. We also found the staff to be knowledgeable of CLCA valuation principles.

TAXABLE GOVERNMENT-OWNED PROPERTIES

Section 3 of article XIII of the California Constitution exempts from taxation any property owned by local governments within their own boundaries. However, if a local government agency owns real property that is located outside the agency's boundaries, then that property is assessable under section 11 of article XIII. These properties are commonly referred to as section 11 properties.

Any government-owned land, other than that located in Inyo or Mono counties, that is located outside the agency's boundaries must be valued at the lowest of (1) the 1967 assessed value multiplied by a factor annually supplied by the BOE, (2) its factored base year value, or (3) current fair market value. Improvements situated on taxable government-owned land are taxable if they were taxable when acquired by the government agency.

New construction of improvements that replace original improvements are taxed at the lowest of (1) current full cash value, (2) factored base year value, or (3) the highest full value ever used for taxation of any improvements that have been replaced. By contrast, any new improvement built on section 11 land that does not replace a taxable improvement is exempt from property taxation.

Contra Costa County has 206 section 11 properties. An appraiser uses a worksheet to value each property annually. Data from the worksheet is keyed into the system. The standards division then reviews all assessments of section 11 properties. We found the

current program is well managed and that the assessor's procedures comply with property tax law.

INTERCOUNTY PIPELINE RIGHTS-OF-WAY

Intercounty pipeline rights-of-way were assessed by the BOE from 1982 until 1993, when an appellate court ruled that such assessments were outside the BOE's constitutional authority. (*Southern Pacific Pipe Lines Inc. v. State Board Of Equalization* (1993) 14 Cal. App. 4th 42.) The court ruled that while the pipelines themselves are properly assessed by the BOE, the right-of-way over which they run must be assessed by county assessors. Consequently, assessors have assumed assessment responsibilities for the valuation of intercounty pipelines rights-of-way.

In an effort to provide statutory clarification to ensure that proper and consistent assessment practices are followed in determining values for intercounty pipeline rights-of-way, sections 401.8 through 401.12 were added in 1996 to prescribe the valuation methodology for the assessment of intercounty rights-of-way. Assessments made in compliance with these sections are rebuttably presumed correct, and the taxpayer may not challenge the assessor's right to make the assessment.

Section 401.8 requires the assessor to combine separate assessable intercounty pipeline rights-of-way into a single countywide parcel per taxpayer. However, separate base year values determined pursuant to section 110.1 must be maintained for each separate right-of-way interest or segment.

The assessor must determine values for each right-of-way in accordance with section 401.10, using density classifications established by the BOE. Contra Costa County has only two density classifications: low and transitional. Rights-of-way classified as low density are valued using a 1975-76 base year value of $9,000 per mile. The base year value for a transitional density right-of-way is $12,000 per mile.

The assessor has assigned a supervising appraiser to monitor and assess these rights-of-way, which are held by 11 companies in Contra Costa County. A new set of assessor's parcel numbers were developed as well as a computer spreadsheet to implement the code changes. Each pipeline assessee was assigned a single countywide assessor's parcel number, which reflects the total value of the rights-of-way owned by the taxpayer. Tracking of each individual right-of-way owned by a taxpayer, as required by section 401.8, is done in the computer spreadsheet. Individual right-of-way parcels are listed in this spreadsheet and their base year values are factored to the present. The sum of the individual parcel values is calculated for each taxpayer, and the total value is reflected in their assigned countywide assessor's parcel.

We commend the assessor and his staff for establishing a well-organized and effective program for tracking and assessing these properties.

POSSESSORY INTERESTS

A taxable possessory interest (PI) is the private right to use publicly owned real property. The term "possessory interest," as it is used for property tax purposes in California,

includes either the possession or the right to possession of publicly owned real property for a term less than perpetuity.

Contra Costa County had over 2,100 possessory interests enrolled on 1997-98 local roll with a total value exceeding $230,000,000. The appraiser responsible for the appraisal of all possessory interests annually contacts 112 governmental agencies to obtain current information on tenants and rents.

In our 1992 survey report, we recommended the assessor use market derived capitalization rates and reasonably anticipated terms of possession. We also recommended he discontinue using a decreasing term of possession when valuing long-term possessory interests.

The assessor implemented these recommendations, and we found that the appraisal staff have been very conscientious in assessing these properties.

RECOMMENDATION 2: Assess all taxable possessory interests.

We found a number of private uses, both recurring and interim, of fairground land and buildings that were sufficiently durable, beneficial, exclusive, and independent to warrant assessment as taxable possessory interests. Some of these uses have resulted in low-value PI's. The assessor does not assess a PI valued at less than $1,000, partly because the auditor-controller's office does not process assessments that produce billings below ten dollars.

Section 155.20 enables county boards of supervisors to adopt a resolution exempting possessory interests for a temporary and transitory use in publicly owned fairground facilities with a value of $50,000 or less. Lacking a resolution or ordinance exempting low-value possessory interests in fairgrounds, the assessor has no statutory authority to exempt small operators from possessory interest assessments.

If the assessor believes that the cost of assessing and collecting taxes on these PI's exceeds the collected proceeds, he should request that the board of supervisors revise their low-value exemption resolution to apply to these types of possessory interests.

However, pending revision of the low-value exemption resolution, we recommend that the assessor assess all taxable possessory interests.

MANUFACTURED HOMES

Manufactured homes subject to local property taxation are assessed according to sections 5800 through 5842, referred to as *The Manufactured Home Property Tax Law*. This is a section of law that applies many of the principles of article XIII A of the California Constitution to the assessment of manufactured homes. Briefly, manufactured homes subject to this law:

- are assessed on the secured roll resulting in a secured tax bill payable in two installments;
- are subject to supplemental assessments (except in the case of voluntary conversion from vehicle license fees to local property tax);
- have a base year value;

- are eligible for decline in value and disaster relief;
- may receive the homeowners' exemption; and
- qualify as original property for the purposes of base year value transfers.

Manufactured homes are a small portion of the assessor's workload in Contra Costa County. There are approximately 1,304 manufactured homes currently enrolled with a total assessed value of over $45,000,000. The majority of the manufactured homes are located in one of the 83 manufactured home parks in the county.

RECOMMENDATION 3: Classify and enroll manufactured homes as personal property.

The assessor continues to classify manufactured homes as real property on the assessment roll. Since 1992, section 5801(b)(2) has required that assessable manufactured homes be classified as personal property. Classification of a manufactured home can affect its taxability. For instance, a manufactured home classified as personal property is subject to different property tax treatment than real property under the following conditions:

- if held for sale or lease by a dealer;
- if owned by military personnel on active duty;
- if owned by a bank, insurance company, or financial corporation;
- if owned by a government agency but used by a private party.

Improper classification can also affect the amount of taxes levied against a manufactured home because of special assessments. Special assessments are levies upon real property in a district for the purpose of paying for improvements. They are not imposed on items of personal property.

The assessor is aware of the provisions of the law requiring classification of manufactured homes as personal property. But he believes the necessary computer program changes required to re-classify them will be complex and the resulting cost high. Instead, he is working with the county auditor and county tax collector to identify and eliminate any improper assessments that could be charged to the improperly classified manufactured homes.

In spite of this, we still recommend classifying and enrolling manufactured homes as personal property. This will bring the assessor into compliance with the law and ensure that manufactured homes are accorded all the benefits intended by the Revenue and Taxation Code.

LEASEHOLD IMPROVEMENTS

Leasehold (or "foreign") improvements are improvements located on land owned by someone other than the owner of the improvements. Improvements of this type may vary from tenant improvements, such as store fronts, interior finish, or partitions, to complete buildings. In many cases, these improvements are owned by the tenant and cannot be secured to the land assessment for property tax purposes, but they must be valued and treated in the same manner as other improvements.

Commercial, industrial, and other types of income-producing properties require constant monitoring by assessor's staffs because as tenants change over a period of time, they may alter the original improvements in a number of ways. Examples include additions, removals, or possibly both, resulting in a changed use of the property. These changes must, by law, be reviewed and reflected in the property's assessment if they qualify as new construction.

The assessment of structural improvements built by either landlord or tenant is the responsibility of the real property staff. Building permits are the primary means of discovery. In addition, the business property statement, in which property owners or tenants are required to annually report any changes in real property improvements, is also a source of information.

In particular, when real property is reported on the business property statement, the reported cost should be jointly examined by an appraiser and an auditor-appraiser. Determinations must be made as to whether costs are for maintenance or repair and are therefore not assessable, whether additions are properly classified as a structure or improvement, or if additions are properly enrolled. For this reason, coordination between staff in the real property and business property divisions is very important. Since the business division in Contra Costa consists of both the business property and the real property staff, their coordination for total property appraisal was excellent. However, we do have one suggestion.

SUGGESTION 2: Implement a positive response system to ensure coordination between the business property and real property staff.

We found incomplete coordination between the business property and real property staff in the assessment of leasehold improvements. Business property statements listing structure items are forwarded to the real property staff. However, there is no system in place for the real property staff to acknowledge receipt of the information, or indicate the actions taken. As a result, there is no assurance that reported items have been assessed.

We suggest the assessor implement a positive response system to ensure coordination between the two divisions as a means of preventing escape and/or double assessments.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

INTRODUCTION

The audit section of the business division is responsible for annually processing more than 52,000 property statements and appraising a variety of business properties. Many of these properties are very large and complex properties, such as oil refineries. This assessment task is accomplished by two crews consisting of two supervising auditor-appraisers, 12 auditor-appraisers, one real property technician, and six clerks. One manager oversees the business division, which consists of the audit section and the commercial/industrial section. The commercial/industrial section is responsible for the assessment of all commercial and industrial properties in Contra Costa County.

This is approximately the same level of staffing the audit section had during our last survey in June 1992. But, since then several experienced auditor-appraisers retired, or have left, and have been replaced with less experienced auditor-appraisers. During our current survey field work, half of the auditor-appraisers on the assessor's staff had less than two years property tax experience.

The assessor has instituted an ongoing training program to compensate for this lack of experience. Auditor-appraisers have been sent to beginning and advanced BOE classes as well as other internal and external training courses. Also, the assessor has attempted to cross-train his auditors by involving them in real property appraisals. This cross training allows them to become familiar with value approaches other than the cost approach.

Other changes have been made to the audit section since our last report. The assessment of boats and aircraft were transferred from the business division to the standards division so that auditor-appraisers can devote more time to audits. An appraisal technician was also added to work on leased equipment, and clerical staff were assigned to compile the audit packages prior to an audit.

AUDIT PROGRAM

The mandatory audit program is an important function of the business property assessment program. Section 469 requires an audit of the financial records of a business at least once each four years when locally assessable trade fixtures and tangible business personal property have a full value of $300,000 or more. BOE Rule 192(a) specifies that the threshold be met in each of four consecutive years.

Contra Costa County has maintained a good mandatory audit program that timely completes mandatory audits. Only two of the scheduled 331 mandatory audits for the fiscal year 1997-98 were carried forward to the next fiscal year, while in the previous fiscal year, 1996-97, only one of the 269 scheduled audits was carried forward.

They also have continued to conduct audits on businesses that do not qualify as mandatory audits. These are frequently referred to as nonmandatory accounts or audits. Previously we recommended the assessor increase his nonmandatory audit production by targeting larger accounts that repeatedly fail to file annual property statements. The assessor has implemented this recommendation, and we commend him for it.

SUGGESTION 3: ***Improve the audit program by (1) performing physical inspections on every audit and (2) verifying the supplies accounts when performing audits.***

Physical Inspection

During our interviews with the assessor's staff and our review of their audit records, we found that the auditor-appraisers seldom physically inspect the assets of companies they audit. Physical inspections are essential to a property tax audit. Estimates of condition and functional obsolescence are dependent upon a physical inspection. In addition, important audit tests such as determining whether all assets have been reported, or verifying the existence or location of reported assets, also necessitate a physical inspection. Without a physical inspection, the quality and integrity of an audit is compromised. We suggest that physical inspections be made part of every audit.

Supplies Account

We found that the assessor's staff do not audit the supplies account. Staff believe the accounts are insignificant and not worth the effort. Although the amount may be small in some businesses, larger industrial and manufacturing businesses can have a substantial amount of supplies. Auditing the supplies account would, in most audits, require little additional time or few additional audit steps, but could add substantial value. We suggest the assessor improve the quality of his audits by instructing his audit staff to audit the supplies account. At a minimum, they should audit the supplies account as part of every mandatory audit.

EQUIPMENT INDEX FACTORS

Taxable values of equipment are generally computed by multiplying historical acquisition costs by valuation factors. The valuation factors are the product of the price index and percent good factors. Accurate assessments depend on the proper choice and application of these tables.

The BOE provides price index and percent good factors for commercial and industrial equipment appraisals in Assessors' Handbook Section 581, (AH 581) *Equipment Index Factors*. These are recommended guidelines. In our last survey, we recommended that the assessor give greater consideration to the index factors contained in the AH 581. Since the assessor believed these factors produced unrealistically high values, he instructed the staff to develop more appropriate price indexes and percent good factors for Contra Costa County.

The assessor's price index factors are developed from a composite average of Marshall Valuation Service's year end average index. The percent good factors are calculated based on a declining balance method that varies depending upon the type of equipment to be valued.

We found that while the assessor's valuation factors produced consistently lower values than those generated by the AH581, the values produced are within an acceptable value range.

BUSINESS PROPERTY STATEMENT PROCESSING

Business property assessments are based upon data submitted by taxpayers on the annual property statements. The more accurate the data reported by taxpayers on the property statements, the more accurate the assessment roll will be.

Processing business property statements is one of the most time consuming tasks for the business property staff. This is particularly true in Contra Costa County due to the large number of statements filed annually. In an attempt to somewhat reduce the processing workload, the assessor's staff have developed and implemented a system that uses a bar code reader to log in returned property statements. We acknowledge and commend the assessor for this innovative approach for dealing with the problems of business property statement processing.

Authorized Signatures

The majority of business property accounts are generally not audited because they do not meet the criteria of a mandatory audit. Thus, proper reporting is essential. One way to better ensure proper reporting is to accept only those statements with authorized signatures. An authorized signature would normally indicate that reported amounts have been reviewed and approved by authorized personnel.

In our last survey, we recommended closer screening of signatures on business property statements filed on behalf of corporations to ensure these signatures were valid according to Rule 172. During our current review we found that the assessor has implemented this recommendation.

Direct Billing

Many California assessors utilize an assessment procedure called "direct billing" or "direct assessment." It is a method of assessing certain qualified low-value business accounts without requiring an annual filing of a business property statement. An initial value is established and continued for several years, with business property statement filings or field reviews required periodically. Examples of businesses suitable for direct billing include apartments, barber shops, beauty parlors, coin-operated launderettes, small cafes and restaurants, and professional firms with small equipment holdings.

The direct assessment procedure is beneficial to the taxpayer and the assessor. Direct assessment streamlines filing requirements, reduces the amount of paperwork for small businesses, and reduces the number of property statements that must be processed by the business property staff.

In Contra Costa County there were 6,251 direct assessments on the 1996-97 roll. In order to be selected for the direct assessment program, the account must have stable assessments of less than $100,000 for the current year and two years prior. The account should also have assets that are not subject to material change once they are installed.

If an account qualifies for direct assessment, the business owner receives a business property statement once every four years. During the interim three years, cards are sent to notify the taxpayer of the current years assessed value. Accounts remain in the direct

assessment program until the cost of assets rise above $100,000, or there is a change of ownership.

Our review of the direct billing program shows there are adequate procedures and controls in place to ensure that significant changes in the business property of these taxpayers are discovered. We commend the assessor and his staff for the effective use of the direct billing program to increase the efficiency and effectiveness of the business property program.

VALUATION OF SPECIFIC PERSONAL PROPERTY TYPES

COMPUTERS

In the past, the valuation of computers and related equipment (herein referred to as computers) was a contested issue between taxpayers and assessors. In its continuing effort to maintain proper, equitable, and uniform property tax assessment, the BOE, in a Letter to Assessors dated April 2, 1997 (LTA 97/18), recommended valuation factors to be used when valuing non-production computers for the 1997 lien date.

The tables for small computers and mainframe computer systems represent a recalculation of the depreciation curves that were used to calculate those tables for the 1996 lien date. The table for mid-range computers represents a new curve based on all data accumulated to date. The BOE reviewed all data accumulated by the California Assessors' Association and representatives of the computer industry and subsequently authorized the publication of the computer valuation tables for the 1997 lien date.

The business property staff follow the BOE guidelines concerning the valuation of computers. A review of the records showed that for the 1997 lien date, the assessor's staff correctly valued computers using the BOE-recommended factors as contained in LTA 97/18.

RACEHORSES

Property Tax Rule 1045 specifies that the assessor is responsible for mailing racehorse tax return forms to those assessees responsible for an in-lieu tax on racehorses. These forms must be sent to potential taxpayers by December 15 prior to the calendar year in which the taxes are due.

Section 5782 requires racehorse owners to report the annual in lieu racehorse tax on the forms provided by the assessor. Section 5767 imposes a penalty for failure to file such report. It also requires the assessor to maintain a record of those persons furnished annual racehorse tax return forms. The county tax collector must also be given a copy within 10 days of the date when copies of the forms are sent.

RECOMMENDATION 4: ***Revise the racehorse assessment procedures by (1) mailing racehorse forms to taxpayers and (2) complying with statutory record keeping and audit requirements.***

Racehorse Form

The assessor's staff annually receives a list of racehorse owners from the California Horse Racing Board and forwards this list to the tax collector's office. They do not mail the racehorse tax return forms to those believed to be required to pay the tax, nor do they follow other procedures specified in Property Tax Rule 1045.

Other than the list furnished by the California Horse Racing Board, the assessor's office does not have a racehorse owner mailing list on file. However, the county does attach a racehorse addendum schedule when agricultural statements are mailed.

We recommend the assessor comply with the forms distribution requirements of Rule 1045 by identifying and mailing racehorse tax returns to those taxpayers believed to be required to pay the in-lieu tax on racehorses.

Record Keeping and Audit Requirements

The assessor has not kept records as required by Rule 1045 (a)(2). Instead, as we previously noted, the assessor has only furnished the county tax collector with the racehorse owner list from the California Horse Racing Board.

Not only is the assessor required to mail racehorse tax return forms, but Rule 1045 (a)(2) requires that the assessor retain his copy of all filed racehorse forms for five years from the date the forms were due, and that these statements be arranged so as to identify those accounts that must be audited. Subdivision (a)(3) of this rule requires the assessor to audit the tax records of any racehorse owner who had a gross racehorse tax liability exceeding $2,000 for each of the four consecutive calendar years.

We recommend that once racehorse tax return forms are mailed, the assessor comply with statutory requirements and establish an orderly filing system so as to identify racehorse owners, provide timely reports to the tax collector, and keep appropriate records of accounts that require an audit.

LEASED EQUIPMENT

Public utilities and railroads in California are assessed by the BOE. These state assessed companies frequently lease equipment from other companies that are locally assessed. Each year, state assessed companies submit a list of this equipment to the BOE's Valuation Division on Form 600-B. Annually the Valuation Division furnishes every county assessor with a copy of these Form 600-Bs, listing equipment that is leased by public utilities but assessed locally by the county.

In our previous review, we recommended that the assessor ensure that all locally assessed equipment reported on Form 600-B was assessed. These forms are now checked for assessable property as recommended. We commend the assessor for implementing this review procedure.

APPENDIX A: RELEVANT STATUTES AND REGULATIONS

GOVERNMENT CODE

15640. **Survey by board of county assessment procedures.**

(a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.

(b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.

(c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.

(d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.

(e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.

(f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. **Audit of Records; Appraisal Data Not Public.**

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

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

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property,

including ‘‘market data’’ as defined in Section 408. However, no information or records, other than ‘‘market data,’’ which relate to the property or business affairs of a person other than the assessee shall be disclosed.

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

15642. **Research by board employees.**

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

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

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

(b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has ‘‘significant assessment problems,’’ as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.

(c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.

(d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract

with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. **Recommendations by board.**

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

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

(a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

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

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

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

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

REVENUE AND TAXATION CODE

75.60. **Allocation for administration.**

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

(b) For purposes of this section:

(1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.

(2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:

(A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.

(B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).

(3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible

county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

TITLE 18, CALIFORNIA CODE OF REGULATIONS

Rule 370. **Random selection of counties for representative sampling.**

(a) SURVEY CYCLE. The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.

(b) RANDOM SELECTION FOR ASSESSMENT SAMPLING. The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.

(1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.

(2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.

(3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.

(c) ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS. If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.

(d) ADDITIONAL SURVEYS. This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. **Significant assessment problems.**

(a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, ''significant assessment problems'' means procedure(s) in one or more areas of an assessor's assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

(1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or

(2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.

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

(1) Uniformity of treatment for all classes of property.

(2) Discovering and assessing newly constructed property.

(3) Discovering and assessing real property that has undergone a change in ownership.

(4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.

(5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.

(6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.

(7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.

(8) Discovering and assessing property that has suffered a decline in value.

(9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.

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

APPENDIX B: THE ASSESSMENT SAMPLING PROGRAM

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing[6] activities is very important. The importance of compliance is twofold. First, the statewide maximum tax rate is set at 1 percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The Board of Equalization (BOE), in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property. The purpose of the BOE's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he or she is performing the valuation function.

The assessment sampling program is conducted by the BOE's County Property Tax Division (CPTD) on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as needed basis for the other 47 counties. This sampling program is described as follows:

1. A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.

2. These assessments are stratified into 18 value strata (nine secured and nine unsecured).[7]

3. From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.

4. For purposes of analysis, the items will be identified and placed into one of five categories after the sample is drawn:

    a) **Base year properties.** Those properties the county assessor has not reappraised for either an ownership change or new construction during the

[6] The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

[7] The nine value strata are $1 to $99,999; $100,000 to $199,999; $200,000 to $499,999; $500,000 to $999,999; $1,000,000 to $1,999,999; $2,000,000 to $19,999,999; $20,000,000 to $22,999,999; $100,000,000 to $249,999,999; and $250,000,000 and over.

period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

b) **Transferred properties**. Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

c) **New construction.** Those properties last reappraised to reflect new construction that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

d) **Non-Proposition 13 properties**. Those properties not subject to the value restrictions of article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, timber preserve property, and taxable government-owned property.

e) **Unsecured properties.** Those properties on the unsecured roll.

5. From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation which is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. This apparent distortion in the raw sampling is eliminated by "expanding" the sample data; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.

6. The field investigation objectives are somewhat different in each category, for example:

a) **Base year properties** -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: Was the value properly

factored forward (for the allowed inflation adjustment) to the roll being sampled? Was there a change in ownership? Was there new construction? or Was there a decline in value?

b) **Transferred properties** -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: Do we concur that a reappraisal was needed? Do we concur with the county assessor's new value? Was the base year value trended forward (for the allowed inflation adjustment)? Was there a subsequent ownership change? Was there subsequent new construction? Was there a decline in value?

c) **New construction** -- for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: Do we concur that the construction caused a reappraisal? Do we concur with the value enrolled? Was the base year amount trended forward properly (for the allowed inflation adjustment)? Was there subsequent new construction? or Was there a decline in value?

d) **Non-Prop 13 properties** -- for properties not covered by the value restrictions of article XIII A, or those properties that have a unique treatment do we concur with the amount enrolled?

e) **Unsecured properties** -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?

7. The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.

8. The results of the sample are then expanded as described in (5) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team .

The primary use of the assessment sampling is to determine an assessor’s eligibility for the cost reimbursement authorized by Revenue and Taxation Code section 75.60. During the course of the sampling activity, the assessment practices survey team may also discover recurring causes for the differrences in the opinion of taxable value that arise between the assessor and the County Property Tax Division. These discoveries may lead to recommendations in the survey report that would not have otherwise been made.

APPENDIX C: COUNTY PROPERTY TAX DIVISION SURVEY GROUP

CONTRA COSTA COUNTY SURVEY

Survey/Sample Program Director:

Charles Knudsen	Chief, County Property Tax Division

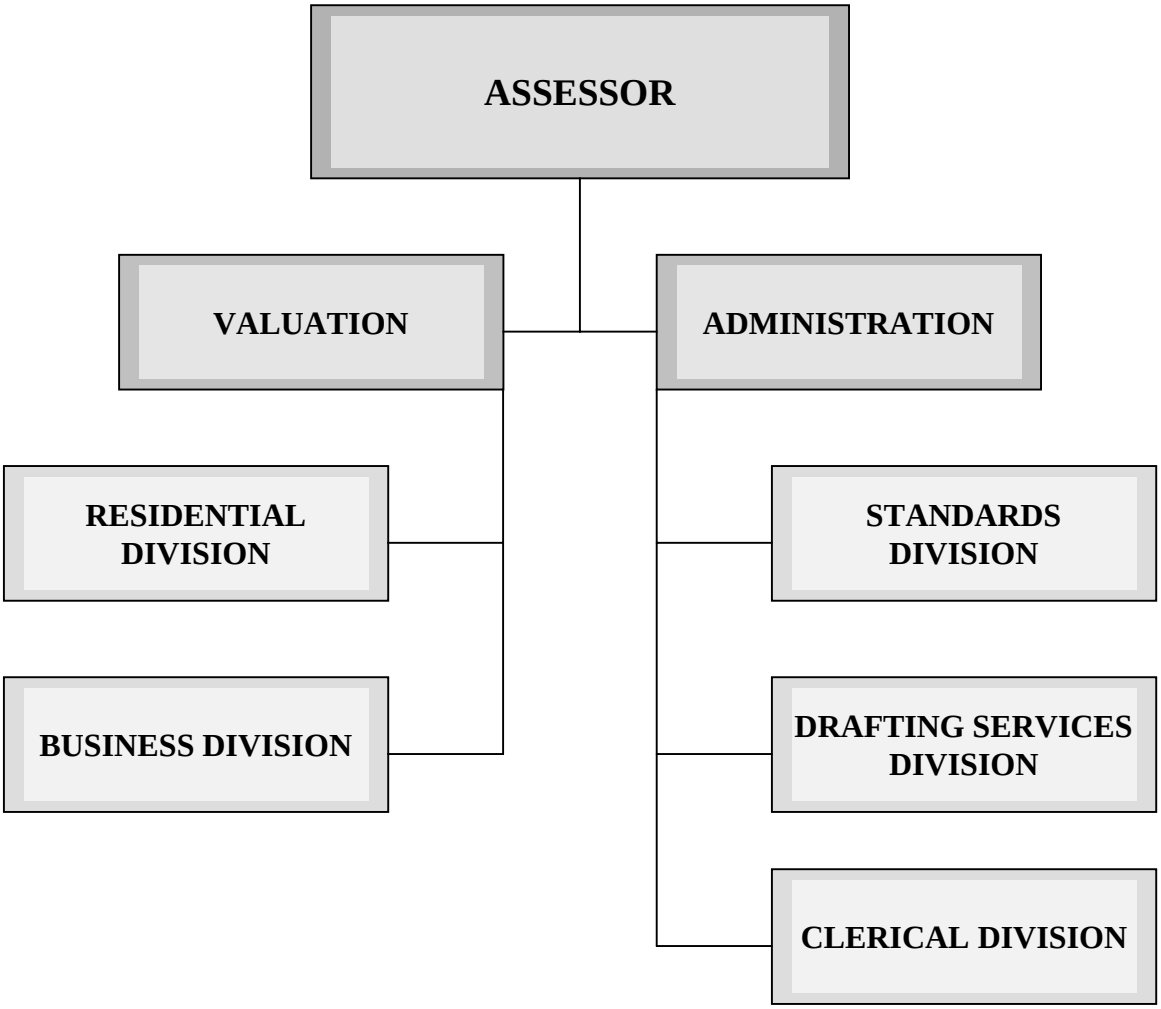
Field Survey/Sample Team Supervisor

Arnold Fong	Supervising Property Appraiser

Office Survey/Sample Team

Anthony Yuenger	Senior Specialist Property Auditor Appraiser
James McCarthy	Senior Petroleum and Mining Appraisal Engineer
Raymond Tsang	Associate Property Auditor Appraiser
Pamela Bowens	Assistant Property Auditor Appraiser
Andrew Anderson	Associate Property Appraiser
Robert Donay	Associate Property Appraiser
Rodney Miyatake	Associate Property Appraiser
Tom Robinson	Associate Property Appraiser
Denise L. Owens	Tax Technician II

APPENDIX D: ORGANIZATION CHART



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 recommendations in the survey report. The Contra Costa County Assessor's response begins on the next page.

Contra Costa County

Office of Assessor

834 Court Street
Martinez, California 94553
FAX: (925) 313-7488
Telephone: (925) 313-7400

Gus S. Kramer
Assessor

February 8, 2000

RECEIVED
FEB 10 2000
DEPUTY DIRECTOR
PROPERTY TAXES

Richard C. Johnson
Deputy Director
Property Taxes Department
State Board of Equalization
P. O. Box 942879
Sacramento, CA 94279-0063

Dear Mr. Johnson:

Pursuant to Section 15645 of the California Government Code, enclosed is the Contra Costa County Assessor's response to the recommendations contained in the Assessment Practices Survey of the 1997/98-assessment roll conducted by the State Board of Equalization. Please incorporate my response into your final Assessment Practices Survey Report.

We appreciate the survey team's very positive and laudatory comments regarding the Office's assessment procedures and practices. The team's report recognized that the Contra Costa County Assessor's Office has substantially improved and continues to improve its assessment programs. As stated in the draft survey report, "The Contra Costa County Assessor's Office is one of the better-managed large assessment operations in the state." Furthermore, the final report states "We attribute this improvement to highly effective management, as well as the dedication and professionalism of the Staff." We agree.

In my response to the survey report, you will see that their recommendations have been addressed or are in the process of being addressed.

I would like to thank Arnold Fong and his survey team for the professional and courteous manner in which they conducted the survey.

I would also express my gratitude to the employees of the Assessor's Office for their hard work, expertise, dedication and commitment to public service.

Sincerely,

GUS S. KRAMER
County Assessor

Attachment

Contra Costa County
Response to State Board of Equalization
Assessment Practices Survey 1997/98 Assessment Roll

Recommendation 1: **Apply the penalty prescribed in Section 482 only if the BOE-Approved Statement form is not returned within 45 days.**

We have corrected our procedure and now only penalize when the approved BOE Change of Ownership statement is not returned.

Recommendation 2: **Assess all taxable Possessory Interests.**

The Assessor is in the process of upgrading Possessory Interest assessment procedures:

We have developed a database that contains all non-taxable parcels in the County. The database serves as the mechanism to contact all public agencies in the County for the purpose of gathering information about potential Possessory Interest holders. The database allows in-house printing of address labels for that purpose.

Recommendation 3: **Classify and enroll manufactured homes as personal property.24**

We concur.

Recommendation 4: **Revise the racehorse assessment procedures by (1) mailing racehorse forms to taxpayers and (2) complying with statutory record keeping and audit requirements.**

Every year during the first week of December, the Assessor's Office receives a list of racehorse owners from the California Horse Racing Board. The Assessor's Office then forwards a copy of this list to the Tax Collector's Office. We did not take any other action except to maintain a file of racehorse owners.

During the 1999 lien date, the Assessor's Office acted on the State Board's recommendation to send out racehorse tax returns. The Assessor's Office submitted the annual racehorse tax return (BOE 571-J) and annual report of boarded racehorses (BOE-571J1) for board approval. The Assessor's Office then mailed the approved forms to racehorse owners taken from the list received from the California Horse Racing Board. We also mailed out our regular agricultural statements including the racehorse addendum schedule that we send with it every year.

Out of the 203 571-J's we sent, a total of 25 racehorses were reported and we collected $754 in taxes. The low response may be due to the fact that there are no racetracks or training facilities in our County.

Based on the number of work hours our staff spent processing the forms, fielding taxpayer phone calls and coordinating with the Tax Collector's Office, we concluded that this practice is not economically feasible for us to continue. We will continue to send the supplemental schedule for registered and show horses together with the agricultural statements every year.