SAN BENITO COUNTY
ASSESSMENT PRACTICES SURVEY

JANUARY 2003

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January 31, 2003

No. 2003/007

TO COUNTY ASSESSORS:

SAN BENITO COUNTY
ASSESSMENT PRACTICES SURVEY

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

The Honorable Arnold R. Fontes, San Benito County 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 and the county assessor's response constitute the final survey report. Pursuant to Government Code section 15646, this report is distributed to the Governor, the Attorney General, the State Legislature, and the San Benito County Board of Supervisors, Grand Jury, and San Benito County Board of Equalization.

The BOE's County Property Tax Division performed fieldwork for this survey of the San Benito County Assessor's Office from September through October 2001. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The survey process inherently requires the interruption of normal office work routines. We thank Mr. Fontes and his staff for their cooperation and patience during this assessment practices survey. These survey reports give government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share your questions, comments, and suggestions for improvement with us.

Sincerely,

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:jm
Enclosure

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INTRODUCTION

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

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

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

The assessor is required to file a response with the board of supervisors that indicates the manner in which he has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, the San Benito County Grand Jury, and the local board of equalization. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Arnold R. Fontes, San Benito County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

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

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

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

Our survey of the San Benito 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 San Benito County that provided information relevant to the property tax assessment program.

This survey report offers recommendations to help the assessor resolve the problems we have identified. The recommendations contained in this report are based on the results of our research into statutory violations, under- or overassessments, or unacceptable appraisal practices that may occur in specific areas.

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

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

EXECUTIVE SUMMARY

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

- In our 1998 survey, we made 12 recommendations addressing problems found in the assessor's policies and procedures. The assessor implemented seven and partially implemented three of those recommendations. For one of the two recommendations not implemented, we find that the assessor's practice now complies with the appropriate statutory provisions. The recommendations that were not implemented, or implemented only in part, are repeated in this report.

- We found no problems in the assessor's administration of the church and religious exemption, the low-value property exemption, new construction program, taxable government-owned property program, valuation of leased equipment, and valuation of aircraft and vessels.

- The assessor has effective programs for the valuation of leasehold improvements and for the processing of assessment appeals and business property statements.

- The assessor's appraisal staff possesses the appraiser certificates required by section 670.

- We found a lack of documentation in appraisal records throughout the office.

- We found that the assessor's notice of proposed reassessment following disaster relief does not include the appeal information required by section 170(c) and that the assessor does not correctly reinstate factored base year values, as required by section 170. In addition, the assessor does not obtain fire reports from all fire protection agencies in the county.

- The assessor does not provide taxpayers with the *Notice of Proposed Escape Assessment* as required by section 531.8. Additionally, the assessor does not include the caption required by section 533 on the assessment roll.

- We found that the assessor does not track the entities that have experienced a change in control to ensure that the real properties owned by them are revalued upon such changes in ownership.

- The assessor's decline-in-value notice does not include the factored base year value as required by section 619(c).

- We found that the assessor cancels low-value supplemental assessments without authorization. Also, the assessor fails to process supplemental assessments upon a change in ownership or completion of new construction on taxable possessory interests and leasehold improvements.

- We repeat our recommendations concerning the California Land Conservation Act assessment program because the assessor: (1) fails to allow for a return *on* and return *of* investments in non-living improvements; (2) does not deduct a capital replacement allowance for irrigation wells that contribute to the income being capitalized; (3) does not use the appropriate income stream when valuing restricted orchards and vineyards; and (4) does not properly assess homesites on restricted lands.

- We found that the assessor did not review all private uses at the county fairgrounds to determine whether taxable possessory interests exist and that he did not revalue taxable possessory interests at the ends of their anticipated terms of possession. Thus, we repeat our prior recommendation.

- We found that the assessor did not consider proved reserves in the valuation of mineral-producing properties, as required by rule 469(e).[2]

- The assessor improperly uses minimum valuation factors when valuing older machinery and equipment.

- The assessor fails to adjust the sale prices of manufactured homes for site influence.

- Despite the problems noted above, we found that nearly all properties and property types are assessed correctly.

- We found no significant assessment problems as defined in rule 371. Accordingly, pursuant to section 75.60, San Benito County continues to be eligible for recovery of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1: Adequately document appraisal records..... 11

RECOMMENDATION 2: Include assessment appeal information on the notice of proposed reassessment as required by section 170(c)..... 13

RECOMMENDATION 3: Obtain fire reports from fire protection agencies to discover property eligible for disaster relief. 14

RECOMMENDATION 4: Upon completion of repairs, restoration, or reconstruction, enroll the lesser of full cash value or factored base year value as required by section 170. 14

[2] Unless otherwise indicated, all rule references are to Title 18, Public Revenues, of the California Administrative Code.

RECOMMENDATION 5: Provide taxpayers with the *Notice of Proposed Escape Assessment* as required by section 531.8. 16

RECOMMENDATION 6: Include the caption required by section 533 on the assessment roll when enrolling escape assessments. 16

RECOMMENDATION 7: Reappraise real properties owned by legal entities upon a change in control. 20

RECOMMENDATION 8: Include the factored base year value on the decline-in-value notice as required by section 619(c). 21

RECOMMENDATION 9: Enroll all supplemental assessments, regardless of change in value. 22

RECOMMENDATION 10: Enroll supplemental assessments for changes in ownership of possessory interests and new construction of leasehold improvements. 22

RECOMMENDATION 11: Deduct a charge from the gross rent for the return *on* and return *of* an investment in non-living improvements..... 24

RECOMMENDATION 12: Deduct a charge for the return *of* the well value from the income attributable to the CLCA property. 24

RECOMMENDATION 13: Use the appropriate income stream when valuing orchards and vineyards restricted under CLCA contracts. 24

RECOMMENDATION 14: Exclude homesites from the restricted value calculations of CLCA properties..... 25

RECOMMENDATION 15: Review all private uses at the county fairgrounds to discover taxable possessory interests. 26

RECOMMENDATION 16: Reappraise taxable possessory interests upon a change in ownership as required by section 61(b)..... 26

RECOMMENDATION 17: Consider the value of proved reserves and account for any additions or reductions to the proved reserves as required by rule 469(e). 27

RECOMMENDATION 18: Use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended when valuing older machinery and equipment. 30

RECOMMENDATION 19: Conduct a study to determine whether site influence affects the selling prices of manufactured homes. 33

RESULTS OF THE 1998 SURVEY

Roll Corrections

The assessor implemented our recommendation that he cite the proper Revenue and Taxation Code sections on his transmittal documents when making corrections to the assessment roll.

Change in Ownership

We recommended the assessor annually adjust base year values by the BOE-announced inflation factor and apply the inflation factor to the base year value of real properties and manufactured homes which are revalued between the lien date and June 30 of each calendar year. The assessor implemented this recommendation.

New Construction

New construction was the topic of a four-part recommendation. We recommended the assessor: (1) document that valuation factors are reviewed annually and develop more discrete valuation factors; (2) use historical costs, published cost guides, and the comparative sales approach as alternate valuation methods; (3) include landscaping, site preparation, and grading costs in the value of newly constructed properties; and (4) update construction-in-progress values on each lien date by revaluing the entire construction in progress. We found that the assessor has implemented this recommendation by making numerous improvements to his new construction valuation program.

California Land Conservation Act Property

We recommended the assessor: (1) deduct a charge for return *on* and return *of* an investment in non-living improvements; (2) deduct a capital replacement allowance for irrigation wells that contribute to the income being capitalized; (3) use a capitalization premise appropriate to the shape of the income stream when valuing restricted orchards and vineyards; and (4) include proper treatment of homesites and improvements to the land. The assessor has corrected only his procedures for assessing land improvements. Therefore, we repeat the remaining portions of that recommendation in this report.

Taxable Government-Owned Property

When determining the taxable value of taxable government-owned lands, we recommended the assessor consider the restricted land values. The assessor has implemented this recommendation.

Taxable Possessory Interests

We recommended the assessor process supplemental assessments for all taxable possessory interests that have changed ownership and that he assess all possessory interests. The assessor has not fully implemented this recommendation. We repeat both parts of the recommendation.

Audit Program

When processing audit results, we recommended that the assessor forward only the assessed value that has escaped assessment to the county auditor for calculation of the change in the tax liability, interest, and penalties, and that he include the statutory citation that authorizes the escaped assessment. The assessor has implemented this recommendation.

Business Property Valuation

We recommended that the assessor use equipment index factors in the manner recommended in Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581). Subsequent to our fieldwork for this survey, the BOE revised the AH 581. Except for a new problem described later in this report, the assessor conforms to the revised AH 581.

We also recommended that the assessor classify certain service station improvements as fixtures. The assessor has implemented this recommendation.

Vessels

We recommended that the assessor seek BOE approval of his *Vessel Owner's Report* as a prescribed property statement for pleasure boats. The text discussing the recommendation pointed out that the report implied a penalty would be assessed for failure to file the form. Penalties, however, can only be imposed for failure to file BOE-prescribed forms. The assessor has not sought BOE’s approval, but, the form does not currently contain a threat of penalty. Thus, the assessor's use of his locally developed form is consistent with statute.

Manufactured Homes

We recommended that the assessor: (1) adjust the selling prices of manufactured homes for site influences; (2) develop a program to periodically compare the factored base year values and the current market values of all assessable manufactured homes; and (3) assess all taxable manufactured home accessories. The assessor has implemented the second and third parts of this recommendation, but, has not implemented the first (i.e., determine whether adjustments for site influences should be made.)

OVERVIEW OF SAN BENITO COUNTY AND THE ASSESSOR'S OFFICE

San Benito County is located in California's Central Coast region about 90 miles south of San Francisco. Neighboring counties include Santa Clara and Santa Cruz to the north, Merced and Fresno to the east, and Monterey to the west and south.

In February 1874, San Benito County was created from a part of Monterey County. The county seat was established in the rapidly growing town of Hollister. Because the county population grew so quickly, the State Legislature expanded the county boundaries and parts of Merced and Fresno counties were incorporated into San Benito County 13 years later.

The county now encompasses 1,396 square miles, or 893,440 acres, and has two incorporated cities. Since 1995, new development in the county has been significant. The total local roll value has increased 55 percent and growth has led to an average increase of 530 parcels per year, about 65 percent of which are in the city of Hollister. As of April 2000, the population of San Benito County was 53,234, an increase of about 26 percent from 1995.

Agriculture remains the county's major industry with a gross income of $208,899,000 for 2000. This represents an increase of 16 percent over 1999. The most significant change was in salad produce, which at $33 million, is the number one crop in the county. Fruit and nut crops, and vegetable and row crops, also experienced production growth. Approximately 75 percent of the privately-owned land in the county is under California Land Conservation Act contract.

Staffing

The assessor increased his staff by one, to a total of 14, for the 1999-2000 roll year. For 2001-2002, the assessor's permanent staff remains at 14 and includes four real property appraisers, two auditor-appraisers, five support staff, one cadastral mapping specialist, and an assistant assessor. Additionally, there is a temporary appraiser.

Budget

As shown below, the assessor's budget has increased about 8.7 percent per year between 1996-1997 and 2001-2002. On a budget of $871,112, the assessor prepared the 2001-2002 local roll with assessments of almost $4.3 billion.

FISCAL YEAR	GROSS BUDGET
2001-02	$871,112
2000-01	$789,549
1999-00	$690,060
1998-99	$677,580
1997-98	$686,922
1996-97	$607,400

Assessment Volume

Commensurate with county growth, annual assessments have steadily increased since the 1997-1998 roll year. The total increase between 1997-98 and 2001-02 was approximately 55 percent, reflecting an average annual increase of about 14 percent. The following table lists the assessments for each year.

ROLL YEAR	SECURED LOCAL ROLL	SECURED ROLL UNITS	UNSECURED LOCAL ROLL	UNSECURED ROLL UNITS	TOTAL LOCAL ROLL
2001-02	$4,085,500,000	19,293	$189,700,000	2,824	$4,275,200,000
2000-01	$3,666,000,000	18,864	$169,000,000	2,871	$3,835,000,000
1999-00	$3,243,900,000	18,377	$153,300,000	2,764	$3,397,200,000
1998-99	$2,870,500,000	17,555	$132,300,000	2,642	$3,002,800,000
1997-98	$2,634,000,000	17,098	$121,800,000	2,500	$2,755,800,000

ADMINISTRATION

This portion of the survey report focuses on the assessor's administrative policies and procedures that affect both the real property and business property assessment programs. We examined the following areas: State-County Property Tax Administration Loan Program, appraiser certification, computer systems, standards and quality control procedures, assessment appeals, disaster relief, changes to the completed assessment roll, and property tax exemptions. We also reviewed the forms used by the assessor.

State-County Property Tax Administration Loan Program

Section 95.31 established the State-County Property Tax Administration Loan Program (PTAP), which provides state-funded loans to eligible counties for the improvement of property tax administration.

If an eligible county elects to participate, that county and the State Department of Finance enter into a written contract, as described in section 95.31. A PTAP loan is considered repaid if the county satisfies agreed-on performance criteria stipulated in the contract. As a provision of the contract, a county must agree to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using PTAP funds to supplant existing funding. In most counties, as a provision of the contract, verification of performance is provided to the State Department of Finance by the county auditor-controller.

San Benito County has participated in this program since the 1996-1997 roll year. The annual loan amount is $90,408, and the required base funding and staffing levels are $435,832 and 11 positions, respectively. The assessor has consistently met established repayment terms and has effectively used loan funds to enhance property tax administration programs. Improvements include the following: (1) additional appraisers and auditor-appraisers, including salaries, benefits, training, and travel; (2) new information technology hardware and software; and (3) office remodeling and equipment. Overall, these improvements were designed to increase the long-term productivity of the assessor's office.

The assessor's performance goals for the 2000-2001 PTAP loan consist of the following: (1) reduction of the backlog of nonmandatory audits; (2) review of the backlog of direct billings; (3) preparation of a defense for assessment appeal cases and reduction of the existing backlog; (4) maintenance of the low-value exemption resolution; (5) review the values of properties that have been the subject of a decline in value; (6) follow-up on non-responses to property statements mailed by the assessor; and (7) review of properties under CLCA contracts for non-compliance with state and county regulations.

As required by the contract, the San Benito County Auditor has certified to the State Department of Finance that the assessor met the contractual requirements for loan repayment. Additionally, the required base funding and staffing levels have been maintained.

Appraiser Certification

Section 670 provides that no person may perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. There are five certified appraisers (including one on temporary status) and three certified auditor-appraisers (including the assistant assessor) in the assessor's office. The assessor's staff possesses the certificates required by section 670. Additionally, the auditor-appraisers performing mandatory audits meet the academic requirements referenced in section 670(d). The assessor is not required to be certified and has not elected to obtain a certificate. The assessor does not use contract appraisers.

Standards and Quality Control

When estimating value, it is part of an appraiser's responsibility to demonstrate to others that the value conclusion is reasonable and supportable; an appraiser fails to meet that duty when appraisal records lack adequate documentation.

RECOMMENDATION 1: Adequately document appraisal records.

When reviewing appraisal records, we found a significant lack of documentation. Applications for exclusions, exemption claims, and valuation analyses all lacked adequate supporting documentation. The following examples typify problems we found throughout the office:

Declines in Value

Few appraisal records contained documentation supporting decline-in-value assessments. In many instances, the only indication that an annual review had been performed was a notation, such as "same '01," followed by the appraiser's initials. In other cases, the only indication that the annual review had been performed was a new entry on the property record showing the assessment year and new assessed value. When documentation was provided, it typically consisted of only one comparable sale, without any indication as to how the sale price was adjusted to reflect market value for the property being appraised.

Taxable Government-Owned Property

We found that when calculating the current market value of taxable government-owned property, the assessor sometimes entered an estimated value per acre on the property record, while in other cases the prior year's market value estimate was simply factored for inflation (using a 5 or 10 percent annual inflation rate). There was no documentation in the appraisal records showing what comparable sales were relied upon to derive the value per acre, or how the inflation factor was derived.

Audit Checklist

In our prior survey, we suggested the assessor require the use of an audit checklist in every audit to document areas of review. This suggestion was not adopted, and we continue to believe that the use of an audit checklist would enhance the documentation of the assessor's audits.

During our review of several recently completed audits, we attempted to verify whether or not the auditor investigated leased equipment, construction in progress, supplies, proper classification of equipment, and other topics that a typical audit would examine. We were unable to determine whether the auditor performed those investigations.

Standard appraisal practice requires proper documentation to substantiate the resulting value estimates. Every value change should be documented on the appraisal record or referenced to an appropriate master appraisal file. Properly documented or referenced appraisal records enable the assessor to perform quality control reviews and more easily respond to taxpayer questions. Without adequate documentation, it is difficult to defend appraisals or to discover whether there are errors in existing appraisals.

We recommend the assessor adequately document all appraisal records.

Assessment Appeals

Section 16 of article XIII of the California Constitution provides for the establishment of local boards of equalization and, pursuant to that authority, the Legislature has mandated guidelines for the functioning of those boards by enacting sections 1601 through 1645.5. In addition to the guidelines mandated by the Legislature, those boards are also governed by local rules adopted by boards of supervisors pursuant to the authority of section 16 of article XIII of the California Constitution. Further, Government Code section 15606(c) directs the BOE to prescribe rules and regulations to govern such boards of equalization. In this regard, the BOE has adopted rules 301 through 326.

In San Benito County, the five-member board of supervisors serves as the county board of equalization and hears all assessment appeals. Assessment appeal hearings are held only a few times a year. The appraiser assigned to the geographic area in which a subject property under appeal is located usually prepares and presents the assessor's case. The assessor reviews all appeals prior to the hearing, and he, the assistant assessor, and an auditor-appraiser may all provide assistance when an appeal involves a complex commercial or industrial property.

As evidenced in the table below, the number of appeals that went to a hearing from 1996 through 2000 was relatively small; a majority of the appeals were withdrawn. It is also noteworthy that within this five-year period the county board of equalization upheld the assessor's values in every case.

Assessment Year	No. of Appeals	No. of Parcels	Appeals Withdrawn	Stipulations	Values Upheld	On Hold/Continued
2000	11	12	2 (to date)	Pending	Pending	Pending
1999	4	8	3	0	0	1
1998	17	41	9	0	8	0
1997	19	25	9	0	9	1
1996	24	50	17	2	4	1

Overall, we found the assessor has an effective assessment appeals program. All appeals had been heard within two years of the filing date of the application, unless the assessor and taxpayer had agreed to an extension.

Disaster Relief

Section 170 authorizes a county board of supervisors to adopt an ordinance providing property tax relief to an assessee whose property has been damaged or destroyed, through no fault of his or her own, by a misfortune or calamity. The ordinance may apply to any misfortune or calamity, to a major misfortune or calamity within a region that has been declared to be in a state of disaster by the Governor, or to both. To be eligible for this relief, the property must suffer a loss in value of at least $5,000 ($10,000 as of January 1, 2002).

On August 20, 1984, the San Benito County Board of Supervisors adopted an ordinance authorizing the assessor to grant disaster relief for property damaged or destroyed by misfortune or calamity. This ordinance took effect 30 days after its passage and did not specify a termination date. Therefore, pursuant to section 170, this ordinance will remain in effect until repealed.

The owners of 36 properties were granted relief under section 170 as a result of flooding that occurred during February, 1998. Pursuant to section 170(l), the assessor did not require the owners of the damaged properties to submit applications for tax relief. Instead, he requested and received approval from the board of supervisors to temporarily reduce the assessments of the affected properties.

Notice of Proposed Reassessment

RECOMMENDATION 2: Include assessment appeal information on the notice of proposed reassessment as required by section 170(c).

We found that the notices of the proposed reassessments sent to property owners who received the tax relief following the 1998 flood did not include the appeals information required by section 170(c). Those notices identified the damaged properties, the assessed values prior to the flood, the proposed reassessments, the reason for the reduction, and the number of months in the current

fiscal year the assessed values would be reduced. However, the notices did not include any information on assessment appeals.

Section 170(c) requires the assessor to notify each taxpayer of his or her right to appeal a proposed reassessment to the local board of equalization within 14 days of the date the notice was mailed.[3] Without this information, the taxpayer may be unaware of the right to appeal.

We recommend the assessor inform taxpayers of their rights to appeal proposed reassessments as required by section 170(c).

Discovery

RECOMMENDATION 3: Obtain fire reports from fire protection agencies to discover property eligible for disaster relief.

In our prior survey, we suggested the assessor obtain fire reports from all fire departments within the county. The assessor still does not receive fire reports from fire protection agencies; rather, he relies on newspaper articles and building permits as his primary discovery tools.

We obtained a list of fires that occurred during 2000 from the City of Hollister Fire Department. This list included eight properties that fire department personnel estimated had suffered at least $5,000 in damage. We examined the property records for seven of those properties and could not find any reference to the fire damage that occurred in 2000, and no tax relief was granted as a result of these fires.

Regularly obtaining fire reports can benefit the assessor in several ways. First, the reports may lead to the discovery of calamities that might otherwise go unnoticed. Second, information will be received timely and will permit the assessor to make a prompt response after the disaster. Third, damage estimates included in fire reports can aid in screening applications for the minimum damage requirement. Fourth, fire reports may contain information that can help the assessor determine whether an owner was guilty of any criminal act, which would preclude the granting of relief. Finally, having the reports will help ensure compliance with section 170.

We modify our prior suggestion to recommend that the assessor obtain fire reports from all fire protection agencies in the county on a regular basis.

Enrollment upon Completion of Repairs, Restoration or Reconstruction

RECOMMENDATION 4: Upon completion of repairs, restoration, or reconstruction, enroll the lesser of full cash value or factored base year value as required by section 170.

The assessor reduced the assessed values of 36 properties due to flood damage during 1998. In a few instances, some of the land surface had been irreparably damaged, and on the following lien

[3] Effective January 1, 2002, the deadline for filing an appeal is six months.

date the assessor enrolled the estimated full cash value, which was lower than the factored base year value. However, in most cases, the assessor determined the factored base year value was lower than the full cash value. In these cases, we found the assessor did not correctly reinstate the factored base year values.

The most common error was that for the 1998 roll, the 1997 factored base year value was enrolled rather than the 1998 factored base year value. As a result, the assessed values for the land and/or improvements on the 2001 roll are typically about 2 percent lower than the correct taxable values.

Sections 170(h)(2) and (3) provide that upon completion of the repair, restoration, or reconstruction, the assessor shall enroll the new taxable value of the property as of that lien date. The new taxable value shall be the lesser of full cash value, the factored base year value, or the factored base year value as adjusted pursuant to section 170(c).

To bring the disaster relief program into compliance with section 170, we recommend the assessor enroll the full cash value or the appropriate factored base year value for properties that have been repaired following damage caused by a misfortune or calamity.

Assessment Roll Changes

The assessor has a duty to complete the local assessment roll and deliver it to the county auditor by July 1 of each year. After delivery, any changes to the roll must be made according to specific statutory requirements.

Assessment roll changes fall under two general categories: escape assessments and corrections. An escape assessment is an assessment of property that should have been delivered to the auditor on the July 1 roll, but was not. Upon discovery of property escaping assessment, the assessor is required to appraise the property and enroll the assessment on the current assessment roll. A correction is any type of authorized change to an existing assessment already enrolled, provided it is made pursuant to a specific statute. All roll changes are based on specific statutes, and the assessment roll must contain appropriate statutory references.

The assessor processes about 300 assessment roll changes annually. Following are the numbers reported for each of the last five years.

FISCAL YEAR	NUMBER OF ROLL CHANGES
2000-01	342
1999-00	332
1998-99	260
1997-98	272
1996-97	323

Notice of Proposed Escape Assessment

RECOMMENDATION 5: Provide taxpayers with the *Notice of Proposed Escape Assessment* as required by section 531.8.

To notify taxpayers of proposed escape assessment, the assessor sends the taxpayer a copy of the roll correction worksheet with a small, attached note advising the taxpayer to contact the office if there are any questions. This notice is not the *Notice of Proposed Escape Assessment* required by section 531.8. It lacks the required heading and does not contain the name and telephone number of a knowledgeable person in the assessor's office who can answer any questions concerning the proposed escape assessment.

Section 531.8 provides that an escape assessment cannot be enrolled until 10 days after the assessor has mailed or otherwise delivered to the assessee a *Notice of Proposed Escape Assessment*. That notice must contain: (1) the amount of any proposed escape assessment and (2) the name and telephone number of a person at the assessor's office who is knowledgeable with respect to the proposed escape assessment. Additionally, the notice must prominently display on its face the following heading: "NOTICE OF PROPOSED ESCAPE ASSESSMENT."

Without the notice required by section 531.8, the escape assessment cannot be enrolled. In addition, without the required heading, a property owner may not be aware of the importance of the notice. And the lack of a contact name and telephone number makes it more difficult for the property owner to get timely answers to specific questions that might arise about the proposed escaped assessment.

We recommend that the assessor provide the *Notice of Proposed Escape Assessment* as required by section 531.8.

Roll Caption

RECOMMENDATION 6: Include the caption required by section 533 on the assessment roll when enrolling escape assessments.

Although the assessor's copy of the assessment roll includes the roll change numbers in red ink, it does not contain the required caption for escaped assessments.

Section 533 requires the assessor to use specific language to identify escape assessments on the assessment roll. If an escape assessment is entered on the current roll and that is not the roll for the assessment year in which the property escaped assessment, then the entry must be followed with this caption: "Escaped assessment for year 19__ pursuant to Sections _____ of the Revenue and Taxation Code."

We recommend the assessor include the proper caption on the assessment roll when enrolling escape assessments.

Exemptions

Section 4(b) of article XIII of the California Constitution authorizes the Legislature to exempt property used exclusively for religious, hospital, or charitable purposes. This exemption from property taxation is known as the welfare exemption. Pursuant to sections 3(f), 4(d), and 5 of article XIII of the California Constitution, California property tax laws provide for the following four exemptions on church property: the church exemption; the church parking area exemption; the religious exemption; and the welfare exemption. The church exemption is primarily used by churches with leased real property; the church parking area exemption is for property reasonably and necessarily required for parking for persons worshipping; the religious exemption is primarily used by churches who own the real property which is used exclusively for worship and school purposes; and the welfare exemption exempts church-owned property used for all other exempt purposes.

The following table shows the exemption values for each category on the secured and unsecured rolls for the last five years.

FISCAL YEAR	CHURCH EXEMPTION	RELIGIOUS EXEMPTION	WELFARE EXEMPTION
2001-02	$1,944,292	$16,388,723	$30,532,383
2000-01	$1,875,205	$15,628,919	$29,717,646
1999-00	$1,703,265	$10,449,827	$23,282,446
1998-99	$1,049,684	$ 8,871,526	$22,852,638
1997-98	$1,095,704	$ 8,682,396	$22,183,247

Annual claims or termination notices are filed as required by law, only partial exemptions are allowed when claims are filed late, and claim affidavits were found to be complete and executed by authorized representatives. We found no problems with the exemption program.

Low-Value Property Exemption

Section 155.20 authorizes the county board of supervisors to exempt all real property with a base year value, and personal property with a full value, so low that, if not exempt, the total taxes would amount to less than the cost of assessing and collecting them. In determining the level of exemption, the board of supervisors must determine the point at which the cost of processing assessments and collecting taxes exceeds the funds collected.

On February 9, 1993, the San Benito County Board of Supervisors adopted Resolution 93-23, which exempted from taxation all classes of real and personal property with a full value of $2,000 or less, with two exceptions:

- Those properties that the assessor decides to appraise as part of a single appraisal unit, whether or not they are assessed separately for administrative purposes; and

- Business personal property and trade fixtures located at multiple locations owned or operated as a single business by a common assessee, or such property owned, rented, leased, or otherwise obtained by a common assessee and rented, leased, loaned, or otherwise entrusted by that assessee for the possession and/or use of another, where the aggregate value of such property exceeds $2,000.

We found no problems with the assessor's low-value property exemption program.

Assessment Forms

Section 15606(d) of the Government Code specifically authorizes the BOE to prescribe and enforce the use of all forms for the assessment of property, including forms used to apply for a reduction in assessment. The BOE annually publishes Assessors' Handbook Section 222, *Standard Form List* (AH 222), which provides a listing of BOE-prescribed forms, as well as forms recommended by the BOE. Generally, the assessor has the option to change the size, color, or appearance of the forms, but cannot add to, change, or delete the specific language on the form. The assessor may also rearrange a form provided the assessor submits that rearranged form to the BOE for approval.

Annually, the BOE mails three checklists of BOE-prescribed forms to all assessors. The three checklists include exemption claim forms, property statements, and miscellaneous forms. The assessors must mark the checklists to indicate which forms they will use, will not use, or will rearrange and send for approval, and return the checklists to the BOE by the designated date. Final prints of all forms used by the assessor are to be submitted to the BOE by a subsequent statutory deadline.

We found the assessor uses 51 of the 70 BOE-prescribed forms and two rearranged forms. He returned all three checklists and submitted the correct version of the final print of forms in a timely manner. With the exception of the *Notice of Proposed Escape Assessment* form, the assessor has a satisfactory assessment forms program.

ASSESSMENT OF REAL PROPERTY

The assessor's programs for assessing real property include the following elements:

- Revaluation of properties that have changed ownership
- Valuation of properties experiencing new construction
- Annual review of properties experiencing declines-in-value
- Annual revaluation of certain properties subject to special assessment procedures, such as land subject to California Land Conservation Act (CLCA) contracts and taxable government-owned land

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

Change in Ownership

Section 110.1 requires the assessor to determine a new base year value for real property upon a change in ownership. Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee interest. Sections 61 through 68 further clarify what is considered a change in ownership and what is excluded for property tax purposes.

Document Processing

To discover changes in ownership, the county recorder sends microfiche of all recorded documents, hard copies of screened documents, and original *Preliminary Change of Ownership Reports* (PCOR) to the assessor. Screened documents include more than 50 different types of documents that the assessor has requested the recorder to provide. The following table shows the number of documents processed by the assessor over the last four years.

ASSESSMENT YEAR	NO. OF TRANSFER DOCUMENTS	NO. OF PARCELS	NO. OF PARCELS APPRAISED
1998	3,181	4,164	1,972
1999	3,576	4,280	2,140
2000	3,254	3,980	1,628
2001	3,063	Not available	Not available

Approximately 95 percent of transfer documents are accompanied by a PCOR. When a PCOR is not received, a *Change in Ownership Statement* (COS) is mailed. The assessor reports that nearly 100 percent of the COS's are returned.

Legal Entity Ownership Program (LEOP)

Section 64(c) provides that when a corporation, partnership, limited liability company, other legal entity, or any other person obtains control of more than 50 percent of the ownership interests in any legal entity, a change in ownership occurs for all real property owned by the legal entity, as of the date of change in control. Discovery of real property transferred by such a change in control can be difficult because ordinarily there is no recorded deed or notice of transfers of ownership interests in legal entities. While such notices 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.

The BOE's Legal Entity Ownership Program (LEOP) discovers such changes in control through responses to questions appearing on corporate and partnership tax returns filed with the State Franchise Tax Board. In each instance, the LEOP staff confirms changes in control and forwards to county assessors reports that include a listing of legal entities that have reported changes in control, the dates of the changes, a real property inventory for each entity, and whether the property was owned or leased as of the date of the change in control.

RECOMMENDATION 7: Reappraise real properties owned by legal entities upon a change in control.

We found that the assessor has no procedures to ensure that properties listed on the LEOP reports are reviewed and reappraised. When LEOP reports are received, the assistant assessor notifies the appropriate appraiser of any changes in control. We found two properties that were listed on the LEOP reports that were not revalued. We also reviewed *Business Property Statements* (BPSs) for notification by the taxpayer that a change in control had occurred and found four where a change in control had been reported but the assessor had failed to perform a reappraisal.

Although the LEOP reports are intended to help the assessor identify changes in control of legal entities, the assessor's procedures lack the monitoring necessary to ensure that those changes in control receive a satisfactory review. Currently, when LEOP reports are received, the work assignment is made, but the assessor does not follow up to ensure completion.

As discussed above, section 64(c) provides that when there is a change in control of a legal entity, there is a change in ownership of all real property owned by the legal entity. When a change in ownership occurs, a reappraisal must be conducted. If a change in ownership is missed and a reappraisal is not done as required by law, the property may be underassessed, allowing escape assessments to occur; unequal treatment of taxpayers may result.

We recommend that the assessor reappraise all real properties owned by legal entities that experience changes in control.

New Construction

Section 71 requires the assessor to reappraise newly constructed real property upon the date of completion, or on each lien date while construction is in progress. Assessors discover most new construction activity from building permits. Other discovery methods include business property statements, aerial photographs, news reports, and field canvassing.

We found no problems in the assessor's program for discovering and valuing new construction.

Declines in Value

Section 51 requires that real property valued pursuant to article XIII A of the California Constitution be annually assessed at the lower of its factored base year value (FBYV) or current market value as defined in section 110. When a property's current market value declines below its FBYV on any given lien date, the assessor must enroll that lower value as the taxable value for the years of decline. If on a subsequent lien date a property's market value rises above the FBYV, the assessor must enroll the FBYV as the taxable value.

The assessor tracks all properties with assessed values below FBYV. The property records are tagged so they can be easily identified for annual review.

RECOMMENDATION 8: Include the factored base year value on the decline-in-value notice as required by section 619(c).

The assessor's notice and cover letter sent to taxpayers whose properties have received a decline-in-value assessment do not include the FBYV. When sending such a notice, section 619(c) requires the assessor to include the FBYV. The *Notice of Taxable Values* sent by the assessor shows the new assessed value, but neither the cover letter nor the form indicates the property's FBYV.

Section 619(c) provides that in the case of a partial restoration or increase in a property's full value over the full value for the prior year, the assessor shall inform the assessee of the property's current FBYV. The assessor indicates that the computer system is incapable of incorporating the FBYV into the *Notice of Taxable Values*. However, as section 619(c) does not state how this information must be supplied, the assessor could elect to include the FBYV in the cover letter.

We recommend that the assessor comply with section 619(c) by informing taxpayers of their FBYV.

Supplemental Assessments

Section 75.10 provides that whenever a change in ownership occurs or upon the completion of new construction, the assessor shall appraise the property at its full cash value. Any increase or decrease in assessed value resulting from a change in ownership or completion of new construction is reflected in a supplemental assessment. A supplemental assessment is a prorated assessment that covers the portion of the fiscal year remaining after the date of the change of

ownership or completion of new construction. When these events occur between January 1 and May 31, supplemental assessments are also levied for the upcoming fiscal year.

The following table shows the number of supplemental assessments processed by the assessor and the increase in revenue generated for the last five years.

FISCAL YEAR	NUMBER OF ASSESSMENTS	NEW ASSESSED VALUES	SUPPLEMENTAL TAXES
1996-97	1,699	$ 99,600,000	$ 602,700
1997-98	2,415	$214,600,000	$1,546,500
1998-99	2,535	$265,900,000	$1,915,600
1999 -00	2,719	$322,500,000	$2,172,100
2000-01	2,919	$410,800,000	$2,769,000

Low-Value Supplemental Assessments

RECOMMENDATION 9: Enroll all supplemental assessments, regardless of change in value.

We found that the assessor does not create supplemental assessments for changes in value less than or equal to $2,000.

Although section 75.55(b) permits a county board of supervisors to authorize the cancellation of any supplemental assessment where the resulting taxes would be less than the cost of assessing and collecting those taxes, the San Benito County Board of Supervisors has not adopted such an ordinance. Therefore, the assessor has no authority to cancel low-value supplemental assessments.

If it is not cost-effective to process low-valued supplemental assessments, the assessor should ask the board of supervisors to adopt an ordinances authorizing cancellation. Until such an ordinance is adopted, the assessor is required by law to deliver all supplemental assessments for enrollment by the county auditor, regardless of value.

Changes in Ownership and New Construction

RECOMMENDATION 10: Enroll supplemental assessments for changes in ownership of possessory interests and new construction of leasehold improvements.

We found that the assessor still does not process supplemental assessments for possessory interest changes in ownership or for new construction of leasehold improvements.

Section 75.14 provides that all property subject to the assessment limitations of article XIII A of the California Constitution shall be subject to supplemental assessment, unless otherwise provided. This includes leasehold improvements and possessory interests.

Thus, we repeat our recommendation that the assessor levy supplemental assessments for changes in ownership of possessory interests and new construction of leasehold improvements.

California Land Conservation Act Property

Agricultural preserves are established by a city or county pursuant to the California Land Conservation Act (CLCA) of 1965. Property owners in an agricultural preserve may choose to enter into a contract restricting the use of their lands. Lands under contract are valued for property tax purposes on the basis of agricultural income-producing ability, including compatible use income (e.g., hunting rights and communications facilities). They are assessed at the lowest of their restricted values, their current market values, or their factored base year values. Sections 422 through 430.5 govern the assessment of land subject to agricultural preserve contracts.

For the 2001-02 assessment roll, San Benito County had a total of 578,700 acres (about 75 percent of the privately-owned land in the county) under contract, including 3,900 acres in non-renewal status. The total assessed value for land and living improvements was $108,527,642, or 2.5 percent of the 2001 assessment roll value. Over the past five years, the number of acres in non-renewal status has steadily declined, while the number of acres under contract has remained relatively level.

The valuation of CLCA properties is the responsibility of five real property appraisers. To ensure assessment uniformity, one of the five is assigned to value vineyards. The assessor uses three different risk rates in the valuation of CLCA properties depending on the use of the land. The risk rates used are grazing (0.75%), row crops (1.00%), and orchard (1.25%).

Rural San Benito County consists of grazing lands, row crops (leaf lettuce, baby lettuce, alfalfa, barley, grain hay, wheat, etc.), nursery stock, trees, and vines. Nursery stock, lettuce, and wine grapes account for the bulk of the revenue from these uses.

In our prior survey report, we recommended the assessor: (1) revise the CLCA program to deduct a charge for a return *on* and a return *of* investments in non-living improvements; (2) deduct a capital replacement allowance for irrigation wells that contribute to the income stream; (3) use a capitalization premise appropriate to the shape of the income stream when valuing restricted orchards and vineyards; and (4) include proper treatment of homesites and improvements to land. We found that the assessor has implemented only our recommendation concerning the treatment of land improvements. Therefore, we repeat our prior recommendations.

Non-Living Improvements

RECOMMENDATION 11: Deduct a charge from the gross rent for the return *on* and return *of* an investment in non-living improvements.

We found that the assessor does not deduct a charge from the gross rent for a return *on* and return *of* the investment in irrigation systems, vineyard stakes, and trellises. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), Part II, page 23, provides that the appraiser should deduct a charge for a return *on* and *of* the improvements from the income stream prior to capitalizing the income into the value of the restricted property.

This step is necessary because the income to be capitalized in open-space valuation is only the net income attributable to the land and CLCA living improvements. Since nonliving improvements, irrigation systems, vineyard stakes, and trellises are not subject to a restricted valuation method, they should be valued in the same manner as other property. Failure to make the deduction may result in an overstated restricted value or lead to a double assessment.

We recommend the assessor deduct a charge from the gross rent for a return *on* and return *of* an investment in non-living improvements.

Wells

RECOMMENDATION 12: Deduct a charge for the return *of* the well value from the income attributable to the CLCA property.

We found that the assessor does not deduct a charge for the return *of* the well value in irrigation wells when using the income approach to value CLCA property. Wells are classified as land for property tax purposes and a return *on* the well value is included in the land capitalization rate. Since wells are wasting assets, a charge for the return *of* the well value must be subtracted from the income stream.

We recommend that the assessor deduct a charge for the return *of* the well value from the income attributable to the CLCA property.

Income Stream

RECOMMENDATION 13: Use the appropriate income stream when valuing orchards and vineyards restricted under CLCA contracts.

We found that the assessor uses a level annuity income premise when appraising orchards or vineyards. While the level annuity premise may be appropriate for orchards and vineyards during their stable period of production, it does not reflect production in the early and late years of the orchard or vineyard's productive life.

Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), provides that the appropriate method of capitalization will depend primarily on the shape of the anticipated income stream. The estimation of the shape of the income stream is

important because the capitalization rate is not market-derived for open-space properties. In addition, AH 521 advises that the typical life cycle of living improvements consists of three stages, i.e., development (inclining production), maturity (level production), and declining (declining production).

Since new plantings of orchards and vineyards are scarce in San Benito County, the assessor believes that the level annuity income stream best estimates the income for lands under CLCA contract. However, acreage in trees and vines changes from year to year.

Using a level annuity premise on plantings not yet at maximum production will distort the income stream to be capitalized. The income stream used should emulate actual production.

We recommend the assessor use the appropriate income stream when appraising orchards and vineyards by the income approach to value.

Homesites

RECOMMENDATION 14: Exclude homesites from the restricted value calculations of CLCA properties.

When a property under a CLCA contract includes a residence, the assessor includes the homesite in the restricted value calculation plus a separate homesite value. This results in overassessment of the homesites.

We recommend the assessor exclude homesites from the restricted value calculations on CLCA properties.

Taxable Government-Owned Property

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

Section 11 land must be assessed at the lowest of the current fair market value, the restricted value, or the factored base year value. In addition, a base year value must be established for any improvement on Section 11 land that was taxable when acquired. Subsequently, the lower of the improvement's factored base year value or the current market value is enrolled. Improvements constructed subsequent to acquisition are exempt unless they replace taxable improvements. In that case, the taxable value of the replacement improvement cannot exceed the highest taxable value ever used for the replaced improvement.

Ten Section 11 properties, with a combined assessed value of $662,391, were enrolled for 2001-2002. We found no problems in the assessor's program for assessing Section 11 properties.

Taxable Possessory Interests

Section 107 and rule 20(a) define a taxable possessory interest as an interest in real property which exists as a result of possession, exclusive use, or a right to the possession or exclusive use of nontaxable, publicly-owned real property.

For the 2001-02 assessment roll, the assessor enrolled approximately 100 taxable possessory interests. These assessments totaled more than $9,100,000, or about 0.2 percent of the total local roll.

In our prior survey report, we recommended that the assessor process supplemental assessments for possessory interests and assess private uses at the county fairgrounds. We found that the assessor has not fully implemented our recommendation.

Discovery

RECOMMENDATION 15: Review all private uses at the county fairgrounds to discover taxable possessory interests.

We found that the assessor has failed to review all private uses of the county fairgrounds to aid in his discovery of possessory interests. Since our prior survey, the assessor has enrolled only two possessory interest assessments at the fairgrounds: the carnival and the manager's residence. In addition to the two fairground assessments enrolled, we found numerous commercial and food vendors who may also have possessory interests. Many of these uses may be sufficiently beneficial, exclusive, durable, and independent to warrant assessment as taxable possessory interests.

We recommend the assessor investigate all private uses of the fairgrounds to discover taxable possessory interests.

Change in Ownership

RECOMMENDATION 16: Reappraise taxable possessory interests upon a change in ownership as required by section 61(b).

We found that the assessor sometimes does not reappraise taxable possessory interests upon a change in ownership as required by section 61(b). In one case, the assessor used a five-year term of possession to initially value a possessory interest which has not been revalued since 1990. In another, a 10-year term of possession had been used to value the possessory interest for a 1997 change in ownership, which was recently revalued because of a change in the rent. These properties should only have been reappraised at the end of their anticipated terms of possession, unless there was a change in ownership, e.g., an assignment of that interest. A change in rent is not a change of ownership as defined by section 61(b).

Since our prior survey, section 61(b)(2) was revised to provide that a renewal or extension of a possessory interest during the term of possession used by the assessor to value that interest does not cause a change in ownership until the end of the term of possession originally used to value

the property. At that time, a new base year value, based on a new reasonably anticipated term of possession, should be established. The assessor's practice is inconsistent with this requirement.

We recommend the assessor reappraise possessory interests upon a change in ownership as required by section 61(b).

Leasehold Improvements

Leasehold improvements are structural or fixture improvements made to rented or leased premises and are typically installed and paid for by the tenant/lessee. Improvements installed by the tenant/lessee can be assessed to the landlord on the secured roll or to the tenant on the unsecured roll.

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

In particular, when real property items are reported on the business property statement, the reported costs should be jointly examined by an appraiser and an auditor-appraiser. Determinations must be made as to whether costs are for repair and maintenance and are, therefore, not assessable, and whether additions are properly classified as a structure or fixture improvements, and should be enrolled. For this reason, coordination between the real property and business property sections is very important.

We reviewed coordination and communication between the real property and business property sections and found that the processing of leasehold improvements is satisfactory.

Mining and Petroleum Property

San Benito County has 11 mining and 10 oil- and gas-producing properties. The assessor has delegated the responsibility of appraising those properties to one auditor-appraiser and one appraiser.

Proved Reserves

RECOMMENDATION 17: Consider the value of proved reserves and account for any additions or reductions to the proved reserves as required by rule 469(e).

We found the assessor does not include the value of proved reserves in his valuation of mineral properties, nor does he make the adjustments required by rule 469 for changes in the properties' mineral reserves (either a newly discovered reserve, or a reduction in existing reserves). When appraising such properties, the assessor uses the annual production based on the estimated life of the operation in the value estimate. In addition, it appears that property owners do not provide any reserve information, and that the assessor does not act to obtain it.

Rule 469(e) requires that the assessor consider the value of proved reserves and account for any additions or reductions to those reserves in the value estimate of mineral properties. The assessor's practice fails to account for typical market conditions for mineral-producing properties. A newly discovered reserve could increase the full cash value of the property, while depletion could lower the full cash value to a level below the factored base year value.

We recommend the assessor consider the value of proved reserves and any addition to or depletion of those reserves in the assessment of mineral-producing properties as required by rule 469(e).

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

Annually, the assessor's business property staff processes over 4,100 property statements, audits about 55 accounts, and enrolls approximately 257 aircraft and 830 vessels.

Audit Program

Mandatory Audits

Section 469 and rule 192 require the assessor to audit the books and records of a taxpayer at least once every four years when the taxpayer's locally assessed trade fixtures and tangible personal property have a full value of $400,000 or more for a period of four consecutive years.

In San Benito County, 64 accounts met this criterion for the January 1, 2001 lien date. Projected, this equates to an average of about 16 mandatory audits per year. The assessor has a timely mandatory audit program. All accounts subject to mandatory audit had been audited, assigned to other counties under the California Counties Cooperative Audit Services Exchange (CCCASE), or a signed waiver of the statute of limitations had been obtained.

Nonmandatory Audits

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

For the 2001-2002 roll, the assessor performed 40 nonmandatory audits. Nonmandatory audits are conducted as time allows. To select candidates for audit, the assessor reviews BPS's for questionable figures and relies upon general awareness of business activities within his community. The program also targets non-filers as possible candidates for nonmandatory audits.

Business Property Statement Program

Section 441 requires each person owning taxable personal property in excess of $100,000 to file an annual business property statement with the assessor. Annual property statements form the backbone of the business property assessment program. These statements cover a wide variety of property types, including businesses, agriculture, boats, and aircraft.

We reviewed the assessor's property statement processing procedures and found no problems. In every case, policies and procedures, and their application, were found to be in compliance with the statutes. Additionally, the assessor has an effective discovery program that relies primarily on field canvassing. The following table displays the assessor's business property statement processing workload for the 2001-02 assessment roll.

TYPE	SECURED		UNSECURED		TOTAL	
	COUNT	VALUE	COUNT	VALUE	COUNT	VALUE
General Business	340	$75,523,821	1,261	$128,796,159	1,601	$204,319,980
Agricultural	500	12,525,544	105	19,391,533	605	31,917,077
Apartments	226	440,202			226	440,202
Manufactured Homes			354	9,628,206	354	9,628,206
Leased Equipment			232	9,754,303	232	9,754,303
Financial Institutions			5	1,357,866	5	1.357,866
Boats			830	5,473,736	830	5,473,736
Aircraft			257	10,437,423	257	10,437,423
TOTAL	1,066	$88,498,567	3,044	$184,839,226	4,110	$273,328,793

Machinery and Equipment Valuation

The BOE annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581), to assist assessors in the valuation of business property and trade fixtures. Price index factors measure the trended value of goods over their service lives. The percent good factors are intended to reflect the average loss in value that commercial or industrial equipment will suffer over its service life. The factors are based on averages and are intended to represent a reasonable estimate of annual value changes for the majority of business machinery and equipment.

Valuation factors are the product of the price index factor and the percent good factor. The proper choice and application of valuation factors to audited historical cost produces an estimate of taxable value.

The assessor uses equipment valuation factors that are based on California Assessors' Association (CAA) Economic Life and Minimum Percent Good Table. Those tables are integrated into the assessor's computer system. Except for the following recommendation, valuation methods were correct.

Minimum Valuation Factors

RECOMMENDATION 18: Use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors,* as intended when valuing older machinery and equipment.

We found that the assessor inappropriately uses minimum valuation factors in the valuation of machinery and equipment. This results in overassessment of older machinery and equipment.

The percent good factors in AH 581 are based on the assumption that as business equipment ages, it gradually loses its ability to earn a profit for its owner. In some cases equipment wears out

physically to the point where it is not economic to repair it. In other cases, the equipment may be in excellent condition physically, but new technology, a changing market relative to the type of equipment, and other factors make the equipment uneconomic.

Some equipment, when no longer economic to operate, will have a salvage value, whereas other equipment will have a negative value due to the cost of disposal. AH 581 factors assume that the average equipment will have a zero value when retired. For commercial and industrial equipment, the factors decline from 100 percent good when acquired to 1 percent good (99 percent depreciation) for equipment that has survived long past the average service life of similar equipment but is still in use.

The CAA tables employed by the assessor use AH 581 percent good factors except that they employ arbitrary minimum percents good for older equipment. This means that very old equipment that is about to be retired is valued as though it has several years of profitable service left.

There is no question that some older equipment is worth much more than 1 percent of replacement cost new, just as some newer equipment is worth substantially less than the percent good suggested by AH 581. When making appraisals of individual items of equipment, the assessor may use sales data, income data, or any other available evidence to find fair market value.

However, when using a mass appraisal tool such as AH 581 tables, it is important to use the tables as presented. Use of arbitrary minimum percents good may value some equipment correctly but will substantially overvalue most items of older equipment. Accordingly, we recommend the assessor use AH 581 as intended in order to avoid overvaluations.

Leased Equipment

One of the responsibilities of the business property section is the discovery and assessment of taxable leased equipment. Taxpayers are required to report all leased equipment, e.g. taxable property in their possession but belonging to others, on the annual business property statement. On that statement, the assessor requests the name and address of the owner, the month and year of property acquisition, the acquisition cost, the location, and other relevant information.

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

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

We investigated the procedures for assessing leased equipment. We found that the assessor has an effective leased equipment assessment program.

Aircraft

The number of private aircraft in San Benito County has gradually increased over the last five years. The following table contains annual statistics:

YEAR	GENERAL		HISTORICAL		TOTAL	
	UNITS	VALUE ($)	UNITS	VALUE ($)	UNITS	VALUE ($)
2001-2002	193	10,201,864	64	235,559	257	10,437,423
2000-2001	197	8,688,660	61	538,800	258	9,227,460
1999-2000	193	8,251,165	56	654,100	249	8,905,265
1998-1999	193	7,457,985	54	204,550	247	7,662,535
1997-1998	181	5,524,890	48	119,850	229	5,644,740

General Aircraft

Prior to the 1997 lien date, the BOE published aircraft valuation data each year in Assessors' Handbook Section 587, *Aircraft Valuation Data* (AH 587). The BOE no longer publishes this handbook section. On January 8, 1997, the BOE approved the *Aircraft Bluebook-Price Digest* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference* as an alternate for planes not listed in the *Aircraft Bluebook-Price Digest*. As stated in LTA 97/03, the BOE further directed that the listed retail values shall be reduced by 10 percent to provide reasonable estimates of fair market values for aircraft in truly average condition on the lien date. In any instance, appropriate adjustments to the book value must be made in order to estimate fair value for the local market.

The assessor uses the *Aircraft Bluebook-Price Digest* valuation guide for appraising general aircraft. The value is calculated by reducing the list price by 10 percent and making appropriate adjustments. Adjustments are made for engine hours, extra equipment, and general aircraft condition. We found the assessor has an effective general aircraft assessment program.

Historical Aircraft

Aircraft of historical significance may be exempt from property taxation. Section 220.5(d) provides that aircraft of historical significance means any aircraft which is an original, restored or replica of a heavier than air powered aircraft which is 35 years or older, or any aircraft of a type or model of which there are fewer than five in number known to exist worldwide.

We found no problems with the historical aircraft exemption.

Vessels

Assessors in California are required to annually appraise vessels at market value and to assess all vessels with an assessed value above $400, unless the county has a low-value property exemption. San Benito County has a low-value property resolution for property valued at $2,000 or less.

For the 2001-02 assessment roll, the assessor enrolled 830 vessels with a total assessed value of $5,473,736. The assessor used a direct billing program for those vessels with values between $2,000 and $5,000. The assessor's primary sources for the discovery of assessable vessels include Department of Motor Vehicles (DMV) reports, referrals from other counties, and information provided by the vessel owners themselves. Valuation tools used include reported purchase prices, the *BUC Used Boat Price Guide* and the *N.A.D.A. Marine Appraisal Guide*.

We found the assessor has a satisfactory vessel valuation program.

Manufactured Homes

A manufactured home is subject to local property taxation if first sold new on or after July 1, 1980, or if the owner has requested conversion from vehicle license fee status to local property taxation. A manufactured home is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the valuation and assessment of manufactured homes are contained in Revenue and Taxation Code sections 5800 through 5842. Manufactured homes should be classified as personal property and enrolled on the secured roll. If the home is situated on an approved permanent foundation system that meets the requirements of Health and Safety Code section 18551, it is classified as real property.

The 2001-02 assessment roll includes 354 manufactured homes with a combined assessed value of $9,628,206. About two-thirds of these homes are located in Mission Oaks Mobile Home Community in Hollister.

In our prior survey, we recommended the assessor adjust the reported selling prices of manufactured homes for site influence. Since we found no change in the assessor's practices, we repeat that recommendation in this report.

RECOMMENDATION 19: Conduct a study to determine whether site influence affects the selling prices of manufactured homes.

The assessor believes that the sale prices of manufactured homes located in the Mission Oaks Mobile Home Community do not include any site value. Therefore, when one of those homes sells, instead of valuing the manufactured home by a published value guide, the assessor typically enrolls the full sale price.

In section 5803(b), the Legislature acknowledged that owners of manufactured homes on rented or leased land do not own the land on which they are located. Although the purchase of a manufactured home does not include the land, the sale price may nonetheless reflect a site influence. The full cash value enrolled upon a transfer of a manufactured home should reflect only the value of the home, and should not include any value attributable to the site. To ensure that no

site value is included in the assessment of a manufactured home, section 5803 provides that when valuing a manufactured home located on rented or leased land, the assessor shall take into consideration sales prices listed in recognized value guides.

As prices for conventional homes in the county began to soar in the late 1990's, demand for affordable housing, such as manufactured homes, also strengthened dramatically. As an indicator of the current popularity of manufactured homes, the manager of Mission Oaks Mobile Home Park said that he had not had a vacancy in the park since July 2000. Strong demand and rising prices for conventional housing, combined with full occupancy in the Mission Oaks Mobile Home Park for the six months prior to lien date 2001, suggest that it is possible that sale prices of homes in the park included some site value.

To determine whether sale prices of manufactured homes in the Mission Oaks Mobile Home Community include site value, the assessor should conduct a market study. To accomplish this task we suggest a comparison of what it would cost to purchase a new home from a dealer and have it installed in the park, and the sale price of a similar home already located in the park. If the home in the park sold for more than it would cost to purchase a comparable home and move it into the park, it is reasonable to conclude that sales prices of manufactured homes in the park include site value.

Failure to adjust for site value results in overassessments. We recommend the assessor conduct a study to determine whether site influence affects the selling prices of manufactured homes.

APPENDICES

A. County Property Tax Division Survey Group

San Benito County Assessment Practices Survey

Chief, County Property Tax Division:

Charles Knudsen

Survey Program Director:

Michael Lebeau	Principal Property Appraiser

Survey Team Supervisor:

Arnold Fong	Supervising Property Appraiser

Survey Team Leader:

Sally Boeck	Senior Specialist Property Appraiser

Survey Team:

Peter Gaffney	Supervising Property Appraiser
Simeon Okoroike	Senior Petroleum and Mining Appraisal Engineer
Ancil Aydelott	Associate Property Auditor Appraiser
Bob Donay	Associate Property Appraiser
Wes Hill	Associate Property Appraiser
Marilyn Jones	Tax Technician II

B. Relevant Statutes and Regulations

Government Code

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

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

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

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

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

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

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

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

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

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

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

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

15642. **Research by board employees.**

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

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

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

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

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

(d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. **Recommendations by board.**

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

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

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

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

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

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

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

Revenue and Taxation Code

75.60. **Allocation for administration.**

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

(b) For purposes of this section:

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

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

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

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

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

Title 18, California Code of Regulations

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

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

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

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

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

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

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

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

Rule 371. **Significant assessment problems.**

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

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

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

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

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

(2) Discovering and assessing newly constructed property.

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

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

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

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

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

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

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

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

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the BOE a response to the findings and recommendation in the survey report. The San Benito County Assessor's response begins on the next page. The BOE has no comments on the response.

ARNOLD R. FONTES
COUNTY ASSESSOR

OFFICE OF THE ASSESSOR

COUNTY OF SAN BENITO

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October 9, 2002

Mr. Charles Knudsen, Chief
County Property Tax Division
State Board of Equalization
P. O. Box 942879
Sacramento, CA 94279-0062

Dear Mr. Knudsen:

Pursuant to Section 15645 of the California Government Code, the following constitutes the Assessors response to the recommendations presented in this Assessment Practices Survey for San Benito County.

These periodic surveys are an essential and useful tool for the proper administration of an Assessors Office. We wish to thank the survey crew for the professional manner in which the survey was conducted.

We also thank our employees for their dedicated and diligent attention in producing a quality assessment roll for San Benito County.

Respectfully submitted

Arnold R. Fontes
Assessor – San Benito County

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State Board of Equalization

RECOMMENDATION 1: Adequately document appraisal records.

Response: We concur and have begun to increase the documentation on appraisal and audit records.

RECOMMENDATION 2: Include assessment appeal information on the notice of proposed reassessment as required by section 170(c).

Response: We concur and have changed our notice to include the information required by section 170(c).

RECOMMENDATION 3: Obtain fire reports from fire protection agencies to discover property eligible for disaster relief.

Response: We concur and have sent letters to the local fire protection agencies requesting a quarterly listing of their fire reports.

RECOMMENDATION 4: Upon completion of repairs, restoration, or reconstruction, enroll the lesser of full cash value or factored base year value as required by section 170.

Response: We agree that an error was made in the reinstatement of the base year value on some of the properties associated with the 1998 flood damages. However, this is not common practice and subsequent calamity reinstatements have been done correctly.

RECOMMENDATION 5: Provide taxpayers with the Notice of Proposed Escape Assessment as required by section 531.8.

Response: We concur and are in the process of revising our forms to comply with section 531.8.

RECOMMENDATION 6: Include the caption required by section 533 on the assessment roll when enrolling escape assessments.

Response: Our current computer system is not capable of printing the section 533 caption requirements on the affected assessment rolls. As time allows, we will review the recommendation and try to arrive at a method to implement it.

RECOMMENDATION 7: Reappraise real properties owned by legal entities upon a change in control.

Response: We concur and will develop procedures to insure that all changes in control are properly reviewed.

RECOMMENDATION 8: Include the factored base year value on the decline-in-line value notice as required by section 619(c).

Response: We concur. However, since our computer system is not capable of providing this information, we will have to develop a manual system to meet the requirements of section 619(c).

RECOMMENDATION 9: Enroll all supplemental assessments, regardless of change in value.

Response: We concur and are in the process of modifying our low-value ordinance to include section 75.55(b).

RECOMMENDATION 10: Enroll supplemental assessments for changes in ownership of possessory interest and new construction of leasehold improvements.

Response: We concur and will supplement the new construction of leasehold improvements.

However, it is very difficult and time consuming to determine when possessory interests actually change ownership due to the complexity of tracking down and receiving the necessary information from each respective public agency. We will attempt to process these possessory interest supplementals when the proper and timely information is received from these public agencies pursuant to section 480.6.

RECOMMENDATION 11: Deduct a charge from the gross rent for the return on and return of an investment in non-living improvements.

Response: We agree that charges for the return on and return of investments in non-living improvements should be deducted from the income to be capitalized and plan to implement a program to correct this situation.

RECOMMENDATION 12: Deduct a charge for the return of the well value from the income attributable to the CLCA property.

Response: Imported water has been provided to most of our valley prime lands diminishing the need for irrigation wells. These wells are now primarily used on a standby basis as a backup or for emergency needs.

This will require extensive review and research on a parcel by parcel basis to determine the "contribution" and "value" of each well associated with the type of farm product produced versus its water needs, which is subject to change on an annual basis.

We plan to conduct these reviews as time allows.

RECOMMENDATION 13: Use the appropriate income stream when valuing orchards and vineyards restricted under CLCA contracts.

Response: This recommendation has been a subject of debate with our office for many years. San Benito County horticultural practices differ from most other areas of the State in that trees or vines are individually replaced as needed and reflect a fairly level income stream until the entire orchard or vineyard becomes uneconomical and they are then removed for another use of the land.

In addition, orchard and vineyard acreage continues to decline from 15,600 acres in 1974 to 7,800 acres in 2001 – a drop of 50%.

We still believe our use of the level annuity income stream best estimates the income for lands under CLCA contracts.

RECOMMENDATION 14: Exclude homesites from the restricted value calculations of CLCA properties.

Response: We concur and have implemented this recommendation beginning with the current 2002-03 tax year.

RECOMMENDATION 15: Review all private uses at the county fairgrounds to discover taxable possessory interests.

Response: We will further review those potential possessory interests at the San Benito County Fairgrounds and enroll those that qualify as possessory interests.

RECOMMENDATION 16: Reappraise taxable possessory interests upon a change in ownership as required by section 61(b).

Response: We concur and will reappraise possessory interests as required by section 61(b).

RECOMMENDATION 17: Consider the value of proved reserves and account for any additions or reductions to the proved reserves as required by rule 469(e).

Response: We concur and will consider the value of proved reserves and any addition or depletion of these reserves in the assessment of mineral production properties as required by rule 469(e).

RECOMMENDATION 18: Use Assessors' Handbook Section 581, Equipment Index and Percent Good Factors, as intended when valuing older machinery and equipment.

Response: We concur and will implement the recommendations of Assessors Handbook Section 581 in conjunction with the recommendations of the California Assessors Association.

RECOMMENDATION 19: Conduct a study to determine whether site influence affects the selling prices of manufactured homes.

Response: We concur, and as time permits, the office will conduct a market study to determine whether the sales prices of manufactured homes include a site value.