

County-Assessed Properties Division Assessment Practices Survey Program

California State Board of Equalization
July 30, 2019 Board Meeting
Sacramento, CA

Objectives of the Presentation

- Overview and Breakdown of the Assessment Practices Survey Report
- Overview of the Sampling Survey Report
- Summary of the Report Findings
- Trends – Recurring Recommendations
- Observations
- Challenges, Risks and Opportunities

Overview - Survey Report Must Contain

- Volume of assessment work to be done
 - Measured by the various types of property to be assessed
 - Measured by the number of individual assessments to be made
- Responsibilities of the county assessor
- Extent to which assessment practices are consistent with or differ from state law and regulations

Breakdown of Survey Report

- Introduction
- Objective
- Scope and Methodology
- Executive Summary
- Overview of the County
- Findings and Recommendations
- Administration
- Assessment of Real Property
- Assessment of Personal Property and Fixtures

Breakdown of Survey Report (cont.)

- Statistical Data
- Prior Survey Recommendations, Responses, and Current Status
- Relevant Statutes and Regulations
- Assessor's Response to BOE's Findings

Introduction

- Explains the purpose of the Assessment Practices Survey Program
 - One of State's major efforts to address public policy interest and financial interest.
 - To promote uniformity, fairness, equity and integrity in the property tax assessment process.
- Outlines assessor's requirements to address recommendations in the report

Objective

- Outlined in Government Code section 15642
- To ensure the assessor is in compliance
- Why?
 - To protect state's interest in the property tax dollar
 - To promote fair treatment of taxpayers
 - To maintain overall integrity and public confidence in the California property tax system

Objective (cont.)

- How?
 - Review specified county's assessment practices and procedures
 - Publish an assessment practices survey report

Scope and Methodology

- **Scope**
 - Defined by Government Code sections 15640 and 15642
 - Outlines the county surveyed and assessment roll year examined
 - Indicates if an assessment sample was included in the survey
 - Explains significance of Revenue and Taxation Code section 75.60 to the survey

Scope and Methodology

- Methodology
 - Explains manner in which information is gathered for the survey
 - Directs reader to BOE website for further information about the scope of our review
 - Outlines the areas reviewed and specific topics covered in the survey

Executive Summary

- Explains the general layout of the report
- Brief overview of the assessor's effective programs and any recommendations for improvement in the areas of:
 - Administration
 - Real property assessment
 - Personal property and fixtures assessment
- Indicates if the county meets requirements of section 75.60

Overview of the County

- Location
- Total area encompassed
- Year established
- Population
- Incorporated cities and county seat
- Assessment roll value ranking

Findings and Recommendations

- Addresses deficiencies discovered
- Lists formal recommendations contained in the report
 - Administration
 - Real property assessment
 - Personal property and fixtures assessment

Administration

- Areas of administration may include:
 - Budget and Staffing
 - Workload
 - Appraiser/Assessment Analyst Certification
 - Staff Property and Activities
 - Assessment Appeals
 - Disaster Relief

Administration

- Areas of administration may include (cont.):
 - Assessment Roll Changes
 - Exemptions programs
 - Racehorse Administrative Tax
 - Assessment Forms

Assessment of Real Property

- Areas of real property may include:
 - Change in Ownership
 - New Construction
 - Declines in Value
 - Supplemental Assessments
 - California Land Conservation Act Property (Williamson Act)
 - Taxable Government-Owned Property
 - Timberland Production Zone Property
 - Taxable Possessory Interests

Assessment of Real Property

- Areas of real property may include (cont.):
 - Restricted Historical Property
 - Leasehold Improvements
 - Timeshares
 - Water Company Property
 - Low Income Housing
 - Mineral Property
 - Pipeline Rights-of-Way

Assessment of Personal Property and Fixtures

- Areas of personal property and fixtures assessment include:
 - Audit Program
 - Business Property Statement Program
 - Business Equipment Valuation
 - Leased Equipment
 - Manufactured Homes
 - Aircraft

Assessment of Personal Property and Fixtures

- Areas of personal property and fixtures assessment include (cont.):
 - Vessels
 - Animals

Survey Recommendation Components

- Detailed within individual survey topic
 - Recommendation
 - Findings
 - Authority
 - Consequences

Survey Recommendation Components (cont.)

- Recommendation
 - States what action the BOE is recommending the assessor take
 - Based on what is discovered during the survey review of the county
- Findings
 - Describes what was discovered
 - Includes reference to evidence

Survey Recommendation Components (cont.)

- **Authority**
 - States authority that addresses the problem
 - Most based on constitutional, statutory, regulatory or advisory violations
- **Consequences**
 - Describes the consequences of the assessor's practice
 - Illustrates importance for assessor to adopt the practice noted in the recommendation

Recommendation Example

RECOMMENDATION: Apply appropriate penalties as required by section 482(b).

We found instances where penalties were not applied when an entity did not timely file the BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*, even though the assessor had been notified by the BOE's Legal Entity Ownership Program section to apply the penalty.

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

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

Statistical Data

- Statistical Data in the following areas:
 - Assessment roll
 - Change in assessed values
 - Gross budget and staffing
 - Assessment appeals
 - Exemptions - Welfare
 - Change in ownership
 - New construction
 - Declines in value
 - Audits

Prior Survey Recommendations, Responses, and Current Status

- List recommendations included in prior Assessment Practices Survey Report
 - Provides assessor's response
 - Indicates if assessor has implemented, not implemented or partially implemented each prior recommendation

Relevant Statutes and Regulations

Government Code Sections

- 15640 Survey by board of county assessment procedures
- 15641 Audit of records; appraisal data not public
- 15642 Research by board employees
- 15643 When surveys to be made
- 15644 Recommendations by board
- 15645 Survey report; final survey report; assessor's report
- 15646 Copies of final survey reports to be filed with local officials

Relevant Statutes and Regulations

Revenue and Taxation Code Section

75.60 Allocation for administration

Title 18, California Code of Regulations

Rule 370 Random Selection of Counties for Representative
Sampling - ***Proposed Revision***

Rule 370.5 Random Selection of Counties for Survey or
Representative Sampling for Calendar Years
2016-2020 – ***Proposed Adoption***

Rule 371 Significant Assessment Problems

Assessor's Response to BOE Findings

- Section 15645 of the Government Code provides that the assessor may file with the Board a response to the findings and recommendations in the survey report
- Section 15645 also allows the Board to include in the report comments regarding the assessor's response

Overview – Sampling Survey Report

- Counties in Group 2 and 3 randomly selected for sample only
- Breakdown of Report:
 - Introduction
 - Scope and Methodology
 - Sampling Results

Sampling Results

- List property by following types:
 - Residential/Rural
 - Commercial/Industrial
 - All Other
- Provides number of assessments reviewed from each property type and the enrolled value
- Indicates if the county assessment roll meets requirements established by section 75.60

Summary of Survey Report Findings Over Last Five Years

Group	Administration	Real Property	Personal Property and Fixtures	Total
1	7	33	30	70
2	12	43	26	81
3	35	116	104	255

Trends – Recurring Recommendations

- Many recommendations are recurring recommendations
- BOE collaborates with the CAA Survey Program Ad Hoc Committee to find solutions

Top Recurring Recommendations

- Business Equipment Valuation
- Audit Program
- Business Property Statement Program
- Manufactured Homes
- Change in Ownership
- Exemptions
- Mineral Property
- Taxable Possessory Interests
- Leasehold Improvements

Successful Solutions

- Business Equipment Valuation
 - **Recommendation:** *Apply the mobile agricultural percent good factors, prescribed on Table 6 of the Assessors' Handbook Section 581, when applicable.*
 - **Solution:**
 - Clarification LTA issued
 - Changes to BOE forms 571-A and 571-F expanding on “mobile” vs “movable” equipment implemented for January 1, 2019 lien date

Successful Solutions

- Audit Program
 - **Recommendation:** *Annually conduct a significant number of audits.*
 - **Solution:**
 - Proposal written to provide flexibility in fulfilling the statutory audit requirement.
 - Proposal attached to SB 1498 and chaptered September 17, 2018. Effective January 1, 2019.
 - LTA issued December 31, 2018 outlining the change.

Successful Solutions

- Mineral Property
 - **Recommendation:** *Treat settling ponds as a separate appraisal unit.*
 - **Solution:**
 - AB 1718 introduced to repeal the requirement to consider leach pads, tailings facilities and settling ponds associated with mining properties as separate appraisal units
 - AB 1718 chaptered October 8, 2017

Successful Solutions

- Taxable Possessory Interests
 - **Recommendation:** *Assess all taxable possessory interests.*
 - **Solution:**
 - AB 608 introduced to provide for a \$50,000 limit that the county board of supervisors may exempt from property tax for **any** possessory interest. January 1, 2020 to January 1, 2025
 - AB 608 chaptered July 12, 2019

Successful Solutions

- Additional possible solutions in the works:
 - Create LTAs for effective administrative practices
 - Work with California Assessors' Administrative Services Association to develop training opportunities
 - Revise existing BOE course material and create online classes

Observations

- Overall improvement through time
- Recommendations are mostly procedural
- Standardization across counties
 - BOE forms
 - Cal Assessor e-Forms
- Continued computerization of processes
 - Move to two computer system vendors
 - Automated appraisal software
 - Vendor provided appraisal software
 - GIS mapping

Survey Program Challenges at the BOE

- Recruitment
 - Uncompetitive salary
 - Barriers to entry
- Training
 - Hiring entry level appraisers with little to no experience
- Retention
 - Aging workforce
 - Staff leave for better opportunities

Survey Program Risks

- Potential outcomes if we are not able to meet statutory and regulatory requirements:
 - Lack of comprehensive oversight function
 - \$6.1 trillion statewide assessment roll
 - Lack of statutory and regulatory compliance
 - Lack of uniformity and unequal treatment of taxpayers
 - Undermines the public trust in a fair property taxation system

Survey Program Proposed Solutions

- Fix salary structure
 - Rank and file
 - Supervisors and managers
 - Work with CalHR to revise job specifications
- Develop and provide training
 - BOE
 - Assessors
 - External
- Review survey report scope, methodology, content and format

Opportunities

- Emerging issues
 - Split roll
 - SB 791 – Certificated aircraft valuation
 - AB 681 – Sunset of current survey selection scheme

Potential Impact of Split Roll

- Related to the valuation of commercial and industrial properties
- Properties assessed on a cyclical basis rather than under Proposition 13

Potential Impact of Split Roll

- Increase need to review commercial/industrial assessments
- Review methodology of sampling program
- Provide guidance to assessors on implementation of split roll
- Provide guidance on appraisal principles
- Create and update forms
- Promulgate and amend Property Tax Rules
- Propose and work with legislators on implementing legislation

Potential Impact of SB 791

- Related to the property taxation of commercial air carriers, this bill:
 - Re-establishes the local centralized administrative procedures using a “lead county” system
 - Establishes a new formula for allocating the taxable value of certificated aircraft beginning with the 2020-21 fiscal year
 - Changes the representative period for measuring aircraft presence in California for value allocation purposes

Potential Impact of SB 791 (cont.)

- BOE is preparing a Budget Change Proposal for additional staff
- During an Assessment Practices Survey, staff will review assessors' compliance with the assessment of aircraft under SB 791.

Impact of AB 681

- Effective January 1, 2016
- Amended sections 15643 and 15645 of the Government Code
- Counties placed into 3 groupings
- Changes report publishing deadlines
 - 24 months for start date prior to 7-1-2016
 - 15 months for start date on or after 7-1-2016 to 6-30-2017
 - 12 months for start date on or after 7-1-2017

Impact of AB 681 (cont.)

- 58 counties still divided into a five-year survey cycle
- Ten largest counties (Group 1)
 - Surveyed at least once every five years
 - Each survey includes sampling
- 11th through 20th largest counties (Group 2)
 - Each year, one county surveyed and one county sampled
- 21st through 58th largest counties (Group 3)
 - Each year, three counties surveyed and two counties sampled

Impact of AB 681 (cont.)

- Random selection for Groups 2 and 3 conducted annually
- This selection scheme will sunset January 1, 2021
 - Reverts back to 11 to 12 counties surveyed and five to six counties sampled in a cycle year
 - 12 month publishing deadline remains in place

Additional Information

- Board of Equalization website:
boe.ca.gov
 - Scope of Assessment Practices Survey
 - Assessment Sampling Program
 - Current and Prior Assessment Practices
Survey Reports
 - Survey Cycle