

ALAMEDA COUNTY ASSESSMENT PRACTICES SURVEY

AUGUST 2006

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August 24, 2006

TO COUNTY ASSESSORS:

ALAMEDA COUNTY
ASSESSMENT PRACTICES SURVEY

RAMON J. HIRSIG
Executive Director

No. 2006/034

A copy of the [Alameda 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 Ron Thomsen, Alameda County Assessor, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Alameda County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

Fieldwork for this survey was performed by the BOE's County Property Tax Division from March through April 2005. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:jm
Enclosure

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INTRODUCTION

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

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

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, and the Alameda County Board of Supervisors, Grand Jury and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Ron Thomsen, Alameda County Assessor, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendixes.

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

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

In addition, pursuant to Revenue and Taxation Code¹ section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

Our survey of the Alameda 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 Alameda County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2004-2005 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

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

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 operations of the assessor's office. However, it also identifies program elements that we found particularly effective and describes areas of improvement since our last assessment practices survey.

In the 2001 Alameda County Assessment Practices Survey, 23 recommendations were made to address problems in the assessor's assessment policies and procedures. The assessor fully implemented 19 of the recommended changes, but failed to implement 4, of which 1 is no longer a subject of our review. The remaining recommendations that were not implemented are repeated in this report.

The assessor has made a major effort to address our concerns in the prior survey report as evidenced by the number of recommendations implemented from the prior survey. His office is well organized and staffed with quality management. As with any typical audit, the focus of our report is on areas that we found to be out of compliance with statutory provisions and acceptable appraisal practice. The statements below summarize the findings of the current survey.

Administrative elements of the assessor's office, including appraiser certification, assessment appeals, assessment roll changes, low-value property exemptions, assessment forms program, and the processing of racehorse tax returns, conform to statutory requirements. However, the assessor continues to use current market value, rather than existing roll values, to determine the percentage reduction to the existing roll values in disaster relief applications.

In the area of real property assessment, the assessor has effective programs for changes in ownership, new construction, declines in value, supplemental assessments, taxable government-owned property, historical property, water company property, and pipeline rights-of-way.

Other programs have areas where improvement is needed:

- With respect to California Land Conservation Act (CLCA) property, the assessor does not classify and enroll living improvements as improvements and does not deduct a charge for return of the well value from income attributable to the property.
- The assessor does not periodically review all taxable possessory interests (PI's) that have stated terms of possession used to value them for declines in value. Also, the assessor incorrectly values PI's prior to the expiration of the anticipated term of possession.
- Although the assessor has written policies and procedures for handling leasehold improvements, he does not always verify that leasehold improvements are properly enrolled.

The assessor has effective programs for the audit of business personal property, discovery of leased equipment, and discovery and valuation of aircraft and vessels. However, we found that

the assessor continues to use unsupported valuation factors to value certain technology equipment.

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

The Alameda County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2004-05 assessment roll indicated an average assessment ratio of 99.96 percent, and the sum of the absolute differences from the required assessment level was 0.48 percent. Accordingly, the BOE certifies that Alameda County is eligible to receive reimbursement of costs associated with administering supplemental assessments.

The formal recommendations are listed below in the order that they appear in the text.

- RECOMMENDATION 1:** Use the existing assessments for land and improvements to determine the percentage reduction due to a disaster.13
- RECOMMENDATION 2:** Revise the CLCA program by: (1) classifying and enrolling living improvements as improvements, and (2) deducting a charge for return of the well value from income attributable to the property.27
- RECOMMENDATION 3:** Revise the PI assessment program by: (1) periodically reviewing all taxable PI's with stated terms of possession for declines in value pursuant to section 51, and (2) assessing PI's pursuant to section 61(b)(2).29
- RECOMMENDATION 4:** Verify that structural improvements costing in excess of \$50,000 are properly processed.31
- RECOMMENDATION 5:** Use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended.37

RESULTS OF 2001 SURVEY

Appraiser Certification

We recommended that the assessor ensure that all staff appraisers meet current training requirements. The assessor has implemented this recommendation and has instituted a system to track employee's training hours.

Disaster Relief

We recommended the assessor allocate disaster relief values in proportion to the existing base year land and improvement values. The assessor continues to allocate values in proportion to current market values of land to improvement value.

New Construction

We recommended that the assessor: (1) obtain all building permits from all permit-issuing agencies, (2) record all building permit activity on appraisal records, and (3) assess all construction in progress at market value on each lien date. The assessor has implemented recommendations (1) and (3). We found no erroneous assessments resulting from the assessor's failure to record all permits; therefore, we do not repeat the second recommendation.

California Land Conservation Act Property

In our 2001 survey report, we recommended that the assessor: (1) assess all vine and vineyard improvements and initiate escape assessments, (2) ensure that restricted living improvement values are not subjected to the annual inflation adjustment, (3) establish base year values for CLCA property, (4) uniformly assess homesites on CLCA property, (5) send annual questionnaires to property owners, and (6) use BOE forms to aid in the discovery of taxable property on agricultural land. The assessor has implemented all of these recommendations.

Leasehold Improvements

We recommended that the assessor ensure that his staff is aware of and follow policies and procedures for handing leasehold improvements. The assessor does not always verify whether or not reported leasehold structural improvements are properly enrolled and we repeat this recommendation.

Water Company Property

In our 2001 survey, we recommended that the assessor review annual county and state water supply source reports to discover assessable water company properties. The assessor now uses the *State Department of Health Services Annual Report* to discover assessable water supply sources. In addition, the assessor uses the annual report prepared by the *Alameda County Health Services Department*. This recommendation has been fully implemented.

Taxable Possessory Interests (PI's)

We recommended that the assessor assess all taxable PI's unless they qualify for the low-value property exemption. This recommendation has been fully implemented.

Business Property Statement Processing

We recommended that the assessor screen property statements to ensure that they have proper signatures and that he properly classify and assess apartment personal property. The assessor now properly classifies and assesses apartment personal property, and he now screens the property statements for proper signatures.

Business Property Valuation

We recommended that the assessor discontinue the use of unsupported minimum valuation factors. We found that the assessor now uses the California Assessors' Association (CAA) tables to value business personal property; therefore, this recommendation is not repeated in this survey. However, we found a problem relative to the assessor's use of untrended valuation tables.

Audit Program

We recommended that the assessor complete all mandatory audits pursuant to section 469. We found that the assessor is now current on his mandatory audit workload.

Aircraft

We recommended that the assessor review and update zero-value aircraft accounts and verify an aircraft's condition before granting a reduction in assessment. The assessor has implemented both recommendations.

Vessels

We recommended that the assessor: (1) apply 10 percent penalty for late filed or non-filed Form BOE 576-D, *Vessel Property Statement*; and (2) allow a reduced preferential assessment amount pursuant to section 275.5, for late-filed documented vessel affidavits. The assessor revised his procedures and 10 percent penalties are now applied where statutorily required and reduced exemptions are now granted to late-filed documented vessel affidavits.

Manufactured Housing

We recommended that the assessor annually assess manufactured homes at the lesser of their factored base year value or full cash value. This recommendation has been fully implemented.

OVERVIEW OF ALAMEDA COUNTY

Alameda County lies just east of San Francisco Bay, and about 80 miles southwest of Sacramento. Contra Costa borders the county on the north, Santa Clara on the south, and San Joaquin on the east. Alameda County encompasses about 738 square miles. Oakland, the county seat, was incorporated in 1852. Founded in 1853, Alameda County has a population of about 1.5 million people and 14 cities.

The following details the assessor's administrative highlights since the 2001 survey:

The assessor has enhanced his website to include various downloadable assessment forms as well as property specific assessment information.

- The assessor has introduced a user-friendly intranet site, for county users and the public, to research specific assessments at his public information counters.
- The assessor has published his first annual report, covering California assessment related issues and Alameda County specific assessment data.
- The assessor developed a statistical report that is periodically provided to jurisdictions that receive property tax revenue to enable them to better determine their budgets for the following year.
- The Standard Data Records developed by the California Assessors' Association for businesses to file business personal property statements electronically is being used in 2005-06 to eliminate duplication of effort and to expedite filing.

The following table displays information pertinent to the 2004-05 assessment roll:

PROPERTY TYPE	NUMBER OF ASSESSMENTS	ENROLLED VALUE
<u>Secured Roll</u>		
Residential	380,773	\$103,742,484,323
Oil, Gas, & Mineral	66	\$81,635,260
Commercial/Industrial	25,750	\$37,776,388,507
Rural	3,713	\$1,093,305,287
Manufactured Homes	1,392	\$60,906,815
Possessory Interests	2	\$5,211,489
Total Secured	411,696	\$142,759,931,681
<u>Unsecured Roll</u>		
Personal Property & Fixtures	48,019	\$7,410,700,691
Possessory Interests	4,309	\$1,369,130,920
General Aircraft	978	\$278,646,995
Certified Aircraft Accounts	23	\$739,990,862
Vessels	9,626	\$134,142,821
Documented Vessels	1,542	\$161,669,849
Improvements on Leased Land	212	\$51,807,100
Total Unsecured	64,709	\$10,146,089,238
Total Assessment Roll	476,405	\$152,906,020,919

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

ROLL YEAR	TOTAL ROLL VALUE	INCREASE	STATEWIDE INCREASE
2004-05	\$152,906,020,919	6.78%	8.3%
2003-04	\$143,195,135,746	6.94%	7.3%
2002-03	\$133,905,836,714	8.08%	7.3%
2001-02	\$123,891,182,151	10.60%	9.4%
2000-01	\$112,014,644,404		8.3%

ADMINISTRATION

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

Budget and Staffing

As shown in the following table, the assessor's office has benefited from increased budget levels over the last five years. PTAP funds are accounted for separately from the assessor's official budget.

BUDGET YEAR	GROSS BUDGET	ANNUAL INCREASE	PERMANENT STAFF	PTAP FUNDS RECEIVED	PTAP STAFF
2004-05	\$17,329,051	1.2%	176	\$2,152,429	13
2003-04	\$17,119,691	10.1%	176	\$2,152,429	13
2002-03	\$15,550,865	8.3%	176	\$2,152,429	13
2001-02	\$14,363,960	11.2%	176	\$2,152,429	13
2000-01	\$12,911,943		176	\$2,152,429	13

The assessor's staff has remained constant over the last few years. The office is divided into two divisions: the Appraisal Division and the Appraisal Services Division.

The Appraisal Division is responsible for the real property and the business personal property assessments. The real property section is divided into eight units. Seven are responsible for specific geographical areas of the county and one handles all assessment appeals. The business personal property section consists of four audit units and one clerical unit.

The Appraisal Services Division is responsible for the support and resource services. This division consists of clerical appraisal support, assessment enrollment, assessee services, exemptions, technology support, and mapping services.

State-County Property Tax Administration Program

In 1995, the Legislature established the State-County Property Tax Administration Program (PTAP). This program, which was later entitled the State-County Property Tax Administration Loan Program, provided state-funded loans to eligible counties for the improvement of property tax administration. This program expired on June 30, 2001, and was replaced with the Property Tax Administration Grant Program, which is available to counties for fiscal years 2002-03 through 2006-07. The grant program operates in the same manner as the loan program except

that if a county fails to meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

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

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

Alameda County has participated in the PTAP since April 1, 1996. For contract year 2004-05, the assessor received a grant of \$2,152,429. The county's required base funding and staffing levels for the assessor's office to maintain the 1994-95 funding level are \$8,646,899 and 176.77 positions, respectively. The Alameda County Auditor-Controller has certified to the State Department of Finance that the county met the contractual requirements for loan or grant repayment for every year under contract.

The assessor has effectively used PTAP funds for: timely completing assessments of real property transfers, new construction, and business personal property and fixtures; timely completing assessment appeals and mandatory and nonmandatory audits; reviewing properties experiencing declines in value; and timely processing of supplemental assessments. The funds have also augmented the assessor's staff with 13 additional positions. All expenditures are designed to increase the long-term productivity of the assessor's office and other county units (i.e., assessment appeals board and tax collector) that are part of the property tax system.

Appraiser Certification

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

There are a total of 94 certified appraisers on staff, all of whom possess the required certificates. Additionally, we found that the auditor-appraisers performing mandatory audits meet the requirements referenced in section 670(d). The assessor is not currently using contract appraisers.

In our 2001 survey, we recommended that the assessor ensure that his appraisers meet the annual training requirements. At that time, we found that 11 of the 62 real property appraisers had training deficiencies of 40 or more hours. Currently, we found that the assessor has taken major steps to address this deficiency. He appointed a training officer who has the responsibility of monitoring staff training. When the training officer receives the BOE annual reports, he keeps the original in a binder for recording and tracking purposes and forwards a copy with a cover letter to the individual appraisers. He then personally contacts those appraisers who will have

deficient hours by the end of the fiscal period to address the deficiency. Finally, he creates an in-house report to track the annual training needs of each staff member to ensure that the section 671 training requirements are met.

The training officer developed a training program and tracks the training needs of newly hired appraisers. He ensures that they obtain their temporary certificate, receive the necessary training, and attend and timely complete the BOE certification process.

The training officer is also responsible for training newly promoted appraiser III's who are responsible for all commercial and industrial properties within their team. He has developed a training program which includes the application of the cost approach, market comparison approach, and income approach to commercial and industrial properties; developing capitalization rates; and analyzing leases.

We found that the deficiencies of the prior survey have been addressed and that the assessor has developed a very good tracking program for monitoring the training needs of his staff.

Assessment Appeals

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

The following table illustrates the appeal workload during fiscal years 2000-01 through 2004-05:

	2004-05	2003-04	2002-01	2001-02	2000-01
Applications Received	5,196	4,384	3,198	2,875	2,337
Carried over from previous year	5,177	3,914	3,915	3,819	9,964
Total Applications	10,373	8,298	7,113	6,694	12,301
Resolution:					
Hearing-Reduced Value	205	26	31	67	156
Hearing-Increased Value	17	0	7	3	0
Hearing-Assessor's Value Upheld	31	22	54	39	97
Applications Declared Invalid	34	249	9	11	571
Applications- Stipulated Value	970	463	897	826	4,312
Applications Withdrawn	2,223	2,187	2,034	1,656	2,935
Total Resolutions	3,675	3,121	3,199	2,779	8,863
Carried Over To Next Year	6,698	5,177	3,914	3,915	3,819

No appeal has gone unresolved for more than two years, unless the taxpayer agrees to a waiver of the statute of limitations. Applications received by the clerk for the assessment appeals board are reviewed, validated, entered into the system with a copy forwarded to the assessor pursuant to Rule 306, and then scheduled for hearing.

Although two real property staff members represent the assessor at all assessment appeal hearings, the assessor may call upon additional staff members to give testimony. Additional staff members may testify when the application involves business property assessments or large complex valuations.

We attended several assessment appeals board hearings and the staff handling appeals was experienced and well prepared. We found no problems with this program.

Disaster Relief

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

To obtain relief under an ordinance, assesseees must make a written application to the assessor requesting reassessment. However, if the assessor is aware of any property that has suffered

damage by misfortune or calamity, the assessor must either provide the last known assessee with an application for reassessment, or he or she may revalue the property on lien date.

Upon receipt of a properly completed application, the assessor shall reassess the property for tax relief purposes. If the sum of the full cash values of the land, improvements, and personal property before the damage or destruction exceeds the sum of the values after the damage by \$10,000 or more, the assessor shall then determine the percentage of value reductions and reduce the assessed values accordingly.

The Alameda County Board of Supervisors revised the disaster relief ordinance (Ordinance Number 2002-54) on March 12, 2002. The ordinance grants the assessor the authority to initiate reassessment without an application where he determines that within the preceding twelve months that taxable property was damaged or destroyed. The assessor uses this authority to initiate reassessment in conjunction with the disaster relief application process.

The following table shows the number of disaster relief claims filed for recent years.

ROLL YEAR	CLAIMS FILED
2004-05	56
2003-04	27
2002-03	38
2001-02	33
2000-01	30

The assessor discovers calamities through reviewing building permits issued for repairs, newspaper articles, field investigation, and taxpayer notification. In addition, the assessor solicits fire incident reports, where damage exceeds \$10,000, from all of Alameda County's fire departments. We reviewed several records of properties that had suffered a calamity. In most cases, the assessor noted the disaster information on the records and adjusted the assessed values of properties for the disaster. We found one area needing improvement in the disaster relief program.

RECOMMENDATION 1: Use the existing assessments for land and improvements to determine the percentage reduction due to a disaster.

In our 2001 survey, we recommended that the assessor grant disaster relief in proportion to the existing roll values, rather than the current market value. Currently, we found that in some cases the assessor continues to reallocate the existing roll values based on the current market value, if the improvement to total value ratio of the current market value is higher than the existing improvement ratio.

For example, if the existing land and improvement assessment of a house damaged by a fire is \$30,000 and \$70,000 respectively, and a fire damaged the improvement resulting in a 50 percent reduction, then the resulting improvement assessment should be \$35,000. However, if the current

land and improvement total value ratios are 20/80 instead of the existing 30/70, then the assessor would reallocate the existing assessments as follows:

	EXISTING ASSESSMENT	ADJUSTED FOR DISASTER	REALLOCATED ASSESSMENT	ADJUSTED FOR DISASTER
Land	\$30,000	\$30,000	\$20,000	\$20,000
Improvement	\$70,000	\$35,000	\$80,000	\$40,000
Total	\$100,000	\$65,000	\$100,000	\$60,000

Section 170(b) provides that, when there is a qualifying disaster, the assessor shall separately determine the percentage reductions in value of land, improvements, and personalty due to the disaster based on the current market value. Then, the assessor shall reduce the values on the assessment roll by the percentage reduction in value. The statutory provision does not allow the assessor to reallocate the values on the roll prior to applying the percentage reduction in value. The consequence of the assessor's practice of reallocating the values on the roll prior to granting disaster relief is that the assessor is granting disaster relief exceeding that allowed by statute.

Assessment Roll Changes

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

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

The following table shows the number of roll changes processed over a three-year period:

ROLL YEAR	ROLL CHANGES
2004-05	17,458
2003-04	18,024
2002-03	18,549

For the real property section, appraisers initiate the need for roll changes, citing the appropriate statutory authority. When these data are entered into the computer system, the system computes the amount of the change and generates the appropriate notices to the taxpayer and auditor.

For the business property section, assessment roll changes are still manually generated. The auditor-appraisers prepare the exhibits for the roll corrections and, after supervisory review, forward them for clerical processing.

We reviewed the *Notices of Proposed Assessments*, *Notices of Enrollment of Escape Assessments*, and *Notice of Decreased Assessment* and found that all required elements are incorporated in the notices. We found that roll corrections reviewed were made within the statutory time period and the *Notice of Proposed Escape Assessment* was mailed to taxpayers at least 10 days before changes were entered on the roll.

Low-Value Property Exemption

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

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

On January 4, 1994, the Alameda County Board of Supervisors adopted Resolution R-93-962, exempting all boats, possessory interests in vessel berths, aircraft tie downs, mobilehome accessories on licensed mobilehomes, and business personal property accounts having a full value of \$2,000 or less from taxation. The county has not adopted a resolution for exempting low-value supplemental assessments or low-value escaped assessments.

We found that the assessor properly and uniformly administers the \$2,000 low-value property exemption pursuant to Resolution R-93-962, and section 155.20. We have no recommendation in this area.

Exemptions

Church and Religious Exemptions

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

Article XIII, section 4(b), of the California Constitution authorizes the Legislature to exempt property used exclusively for religious, hospital or charitable purposes and owned or held in trust by a corporation or other entity. The corporation or entity, however, must meet the following requirements: (1) it must be organized and operated for those purposes; (2) it must be non-profit; and (3) no part of its net earnings can inure to the benefit of any private shareholder or individual. The Legislature has implemented this constitutional authorization in section 207 of the Revenue and Taxation Code, which exempts property owned by a church and used exclusively for religious worship and school purposes.

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

The assessor processed 254 church exemption claims and 431 religious exemption claims for the 2004-05 assessment roll. The following table illustrates religious and church exemption data for the 2000-01 through 2004-05 assessment rolls:

ROLL YEAR	RELIGIOUS		CHURCH	
	Number	Value	Number	Value
2004-05	431	\$301,590,634	254	\$107,830,763
2003-04	437	\$271,859,930	246	\$100,586,993
2002-03	425	\$266,532,344	244	\$97,762,363
2001-02	413	\$256,192,502	240	\$92,603,734
2000-01	454	\$247,233,079	233	\$75,057,234

In Alameda County, first-time claimants for the religious exemption correctly file Form BOE-267-S, *Religious Exemption Claim*. Once established, the assessor annually mails Form BOE-267-SNT, *Religious Exemption Change in Eligibility or Termination Notice*. If a claimant fails to return Form BOE-267-SNT, the assessor contacts the claimant by telephone or in person to re-establish the religious exemption and/or adjust the exemption as necessary. We found the assessor's religious exemption program to be well documented and properly administered.

Pursuant to sections 255 and 256, claimants for the church exemption are required to file an annual claim using Form BOE-264-AH. When applicable, the exemption for late-filed claims was limited to 85 or 90 percent (\$250 maximum). We found the assessor's church exemption program to be well documented and properly administered.

Welfare Exemption

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

The welfare exemption is co-administered by the BOE and county assessors. Effective January 1, 2004, the BOE became responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing *Organizational Clearance Certificates* (OCC's) to qualified nonprofit organizations. And, the assessor became responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

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

The following table summarizes welfare exemptions granted from the 2000-01 through 2004-05 assessment rolls:

ROLL YEAR	NUMBER OF EXEMPTIONS	EXEMPT ASSESSED VALUE
2004-05	1,338	\$2,985,087,026
2003-04	1,285	\$2,468,933,871
2002-03	1,296	\$2,551,563,751
2001-02	1,309	\$2,231,659,469
2000-01	1,278	\$2,248,356,142

The assessor makes a concerted effort to obtain the OCC from each applicant and verify each OCC on the BOE website. The assessor verifies the actual use for each type of exemption by field inspections. We reviewed a variety of welfare exemption claims on file at the assessor's office and found no problems.

Racehorse Administrative Tax

Racehorses domiciled in California are subject to an annual tax in lieu of ad valorem property tax. Sections 5701 through 5790 outline the provisions of this tax. Specific procedures and forms are prescribed by Rules 1045 and 1046. Rule 1045(a)(2) requires the assessor to furnish BOE-prescribed forms to racehorse owners for reporting the in-lieu tax.

The assessor annually sends racehorse tax return forms to prior year owners of racehorses. In addition, he sends the appropriate tax form to owners of horse boarding facilities requesting that they report domicile changes. The assessor and tax collector exchange information ensuring that all taxable racehorses are discovered.

The assessor annually sends Form BOE-571-J, *Annual Racehorse Tax Return*, and Form BOE 571-J1, *Annual Report of Boarded Racehorses*, on December 12, thereby meeting the requirements of Rule 1045.

Examinations of tax returns delivered to the tax collector and maintained by the assessor indicated no returns exceeded the threshold for mandatory audit. We found that the assessor effectively administers the racehorse tax.

Assessment Forms

Government Code section 15606 requires the BOE to prescribe the use of all forms for the assessment of property for taxation. For the 2004 lien date, the BOE prescribed 75 forms for use by county assessors and 1 form for use by county assessment appeals boards. Generally, the assessor has the option to change the appearance (size, color, etc.) of a prescribed form but cannot modify, add to, or delete from the specific language on a prescribed form. The assessor may also rearrange information on a form provided that the assessor submits such a form to the BOE for review and approval. Assessors may also use county-developed forms to assist them in their assessment duties.

The BOE annually sends three forms checklists to assessors for (1) property statements, (2) exemption forms, and (3) miscellaneous forms. Assessors are asked to indicate on the checklists which forms they will use in the succeeding assessment year and to return the checklists and any rearranged forms to the BOE by October 15 in the case of property statements and miscellaneous forms and by December 1 in the case of exemption forms. By February 10, assessors are also required to submit to the BOE the final prints (versions) of all BOE-prescribed forms they will use in the following year.

A review of the forms used by the Alameda County Assessor's Office for the year 2004 revealed the following:

- Of the 75 BOE-prescribed forms listed on the three checklists provided for the 2004 lien date, the assessor used 58.
- Of those 58 forms used, the assessor rearranged 7.
- The checklists were timely received.
- The rearranged forms were timely received.
- The final prints of the forms were timely received.
- The county had 11 BOE-prescribed and seven county-developed forms on the county website.

We did not find any problems with the assessor's forms process.

ASSESSMENT OF REAL PROPERTY

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

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

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

Change in Ownership

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

Document Processing

The assessor's primary means of discovering properties that have changed ownership is review of deeds and other documents recorded at the county recorder's office. Deeds and other recorded documents that transfer ownership are imaged and scanned daily by the recorder and automatically sent to the assessor. Alameda County Ordinance 80:109 requires that deeds be identified by assessor's parcel number (APN).

About 35,000 recorded documents per year resulted in reappraisals during the recent years. The following table shows the total number of recorded documents resulting in reappraisable transfers, and the value increase resulting from those changes in ownership, for recent years:

YEAR	RECORDED DOCUMENTS RESULTING IN REAPPRAISALS	INCREASE IN VALUES RESULTING FROM CHANGES IN OWNERSHIP (IN BILLIONS)
2004	35,703	\$ 7.0
2003	32,028	\$ 6.4
2002	27,589	\$ 6.3
2001	35,365	\$ 7.3
2000	37,389	\$ 5.1

Preliminary Change of Ownership Reports (PCOR's) and Change of Ownership Statements (COS's) are effectively tracked and penalties, if any, are applied pursuant to sections 482 and 483. We reviewed the appraisal records of several transfers and found them to be well documented. We found that the assessor has an effective deed-processing program to aid his discovery of changes in ownership.

Legal Entity Ownership Program (LEOP)

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

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

The BOE notified the assessor of 128 legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). We reviewed the appraisal records of several transfers and found the assessor has properly reviewed the transfers and re-appraised the properties when appropriate.

Section 408.1 Transfer Lists

Pursuant to section 408.1, the assessor has a two-year transfer list that is available to the public for review at a charge of \$10. Information on the transfer list is updated quarterly as required by statute. The assessor provides the public access to a computerized list of real property transfers that occurred in the preceding two-year period. Assessor's parcel number, recording date, document number, and selling price (as indicated by the documentary transfer tax) identify each transfer on this list. The recorded deed is the source document for all data presented on this list. The confidentiality provisions of section 481 are observed.

Change in Ownership Exclusions

Section 63.1 excludes from change in ownership principal residences and the first one million dollars (\$1,000,000) of other real property transferred between each parent and their children. The exclusion also applies to transfers from grandparents to grandchildren if all of the parents of the grandchild or grandchildren are deceased as of the date of transfer.

Section 69.5 allows qualified homeowners 55 years of age or older, or qualified homeowners who are severely and permanently disabled to transfer the base year value of their present principal residence to a replacement dwelling purchased or newly constructed within the same county on or after November 5, 1986, provided a claim is timely filed. Claims must be filed within three years of the purchase or completion of the new construction of the replacement dwelling. Subsequently, section 69.5 was amended to allow counties to adopt ordinances to expand benefits to include intercounty transfers. Alameda has adopted such an ordinance.

The following table represents the filings for section 63.1 and section 69.5 claims for recent years:

ROLL YEAR	SECTION 63.1	SECTION 69.5
2004-05	3,951	150
2003-04	4,089	226
2002-03	3,033	217

We found that the assessor verifies eligibility requirements and tracks and processes section 63.1 and section 69.5 claims effectively.

Direct Enrollment Program

Direct enrollment allows the assessor to automatically process the assessment of properties meeting certain criteria with minimal appraisal involvement. In Alameda County, the assessor's direct enrollment program is used only to enroll qualifying single-family residences, condominiums, and small apartment properties. For the 2004 roll year, approximately 22,977 transfers were enrolled through this program. In order to qualify for direct enrollment the property must meet the following criteria:

- The transfer must involve an interest of 100 percent,
- The subject must be located within a direct enrollment neighborhood,
- The deed must show a transfer tax based on the sale price, and
- The sale price must exceed the current assessed value.

A transfer work report is created for each potential direct enrollment (PDE). This report is forwarded with the COS and PCOR to the appraisal staff who conduct a desk review and then enrolls the sales price. Once accepted, the PDE is changed to direct enrollment. We found no problems with the assessor's direct enrollment program.

New Construction

Section 70 defines newly constructed property, or new construction, as (1) any addition to real property since the last lien date; or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement, constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property on each lien date while construction is in progress and on its date of completion, and provides that the full cash value of completed new construction becomes the new base year value of the newly constructed property.

Rules 463 and 463.500 clarify the statutory provisions of sections 70 and 71, and Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6, provides guidance for the assessment of new construction.

There are several statutory exclusions from what constitutes new construction; sections 73 through 74.7 address these exclusions.

Discovery

Most new construction activity is discovered from building permits. Currently, the assessor receives building permits from 15 permit-issuing agencies: the Alameda County Building Department and the cities of Alameda, Albany, Berkeley, Dublin, Emeryville, Fremont, Hayward, Livermore, Newark, Oakland, Piedmont, Pleasanton, San Leandro, and Union City. Discovery methods used for discovery of non-permitted new construction include field inspections and reviewing newspaper articles and business property statements.

Most of the permits are accompanied by a building plan and all permits received are forwarded to the property appraisers for review and valuation. The appraisal support staff automatically mails new construction questionnaires on all permits indicating an appraisable event. Cost information is obtained from building permits and from taxpayers.

Permit Processing

The permits in Alameda County are sent by permitting agencies or retrieved by the assessor once or twice monthly in hard copy form. As of the survey year, only the City of Livermore sends permit data electronically. Permit processing is the responsibility of the appraisal services division. The appraisal services division receives the permits and forwards them to the supervisor of each appraisal unit who determines whether they create a potential reappraisable event.

Permits selected for new construction review are returned to the appraisal services division for permit data entry to the computer system. A permit worksheet is created and forwarded with the appraisal file to the assigned appraiser for review and valuation. The appraiser will make a value determination and return the appraisal file to the supervisor for review. If approved, the value is input into the system and a supplemental assessment is automatically generated.

The following table shows the permit workload of the assessor for recent years:

ROLL YEAR	PERMITS RECEIVED	PERMITS GENERATING VALUE	TOTAL VALUE ADDED
2004-05	55,050	8,596	\$1,313,664,876
2003-04	60,972	7,598	\$1,501,954,115
2002-03	49,671	7,612	\$1,981,539,328
2001-02	51,786	8,583	\$2,155,510,580
2000-01	31,337	8,939	\$2,160,208,597

The assessor follows specific procedures to ensure proper processing of all permits. The processing procedures are thorough and provide for effective retrieval of information which is used by the appraisers to make informed decisions.

Valuation

The assessor values new construction by estimating the full value of new construction as of the date of completion. The appraiser determines the completion status of new construction from an on-site review, or a notice of completion from the building department or from the taxpayer. Several cost sources are used in valuing new construction, including Assessors' Handbook Section 531, *Residential Building Costs*; the owner's actual cost; and Marshall Valuation Service for commercial and industrial properties. All permits not previously determined to be maintenance or replacement are field reviewed. We reviewed several new construction appraisal records and found no problems with the assessor's program for assessing new construction.

Construction in Progress

On each lien date, section 71 requires the assessor to enroll construction in progress at its fair market value. On subsequent lien dates, if the new construction is still incomplete, the assessor

must re-enroll the construction in progress at its fair market value. This process continues until the new construction is complete, at which time the new construction is assessed at its fair market value upon completion and a base year value is assigned. We found no problems with the valuation of construction in progress.

In our previous survey report, we recommended that the assessor: (1) obtain all building permits from all permit-issuing agencies, (2) record all building permit activity on appraisal records, and (3) assess all construction in progress at market value on each lien date. We found that the assessor is receiving building permits from all city and county permitting agencies and is properly assessing construction in progress at market value on lien date.

Regarding the remaining recommendation, the assessor's current policy is to cull permits that do not appear to represent taxable new construction, and to not maintain any record of the permits ever having been issued.

While maintaining a detailed history of improvements to a property may be beneficial to the appraisal staff when making appraisal judgments, we did not discover any taxable new construction that escaped assessment due to this policy. As a result, we are not repeating the recommendation.

Declines in Value

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

Discovery of value declines in commercial, industrial, residential, and agricultural properties is accomplished through several means. The Alameda County Assessor relies on the appraisers' familiarity with their assigned geographic areas and specialties. In addition, taxpayer requests for review and assessment appeals trigger reviews for value declines in properties surrounding the subject property.

All properties experiencing declines in value are tracked and coded with a primary base year code of *L* or *I* in the computer system so that the annual inflation factor will not be applied. A listing of properties with a primary base year code of *L* or *I* is produced so the decline-in-value properties can easily be identified for annual review. The computer system flags these properties for annual review by appraisers responsible for the area. The system is fully automated and permits the appraiser-determined current market value to be directly entered into the computer, which then processes this value directly to the roll.

Due to a strengthening of the local real estate market, the number of properties experiencing a decline in value below their FBV has dropped. For 2004-05 the majority of the decline-in-value properties represent manufactured homes, industrial, or commercial properties:

ROLL YEAR	DECLINE-IN-VALUE PROPERTIES
2004-05	2,337
2003-04	3,514
2002-03	6,109
2001-02	8,540
2000-01	30,614

The assessor properly reviews and adjusts parcels receiving decline-in-value assessments pursuant to section 51. We found that the residential and commercial property records with decline-in-value assessments have comparable sales listings included in their folders, and that the appraisals were well documented, complete, and reasonable.

Supplemental Assessments

Sections 75 through 75.80 require the assessor to appraise property at its full cash value upon change in ownership or completion of new construction and to issue a supplemental assessment based upon the change in ownership or new construction occurring on or after July 1, 1983. A supplemental assessment is an assessment that reflects the increase or decrease in assessed value resulting from a change in ownership or completion of new construction for the fiscal year. If a change in ownership or completed new construction occurs between January 1 and May 31, two supplemental assessments result from the same event: one for the remainder of the current fiscal year, another for the entire next fiscal year. Clarification regarding supplemental assessments resulting from the completion of new construction is contained in Rule 463.500.

The assessor issues supplemental assessments whenever there is a change in ownership or completion of new construction. The supplemental assessments are generated by computer and are electronically forwarded to the auditor-controller for issuance of the tax bills. However, supplemental assessments for possessory interests on the unsecured roll are manually calculated.

The appraiser enters the values on a supplemental notice. The original notice is mailed directly to the assessee, a copy is sent to the auditor, and another copy is attached to the possessory interest total property sheet. This process takes approximately one month.

The following table shows the supplemental assessment statistics for recent years:

ROLL YEAR	SUPPLEMENTAL NOTICES MAILED
2004-05	41,227
2003-04	37,044
2002-03	32,726
2001-02	41,247
2000-01	43,821

The assessor's policy is to issue supplemental assessment notices to all property owners. However, the county auditor will cancel small supplemental tax bills that are \$20 dollars or less. We found the assessor's supplemental assessment program to be current and accurate.

California Land Conservation Act Property

Pursuant to the California Land Conservation Act (CLCA) of 1965, agricultural preserves may be established by a city or county for the purpose of identifying areas within which the city or county will enter into agricultural preserve contracts with property owners.

Property owners who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method that is based upon agricultural income-producing ability (including income derived from compatible uses, e.g., hunting rights and communications facilities). Although such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value, the restricted value typically is the lowest.

Sections 421 through 430.5 prescribe the method of assessment for land subject to agricultural preserve contracts. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), provides BOE-approved guidance for the appraisal of these properties.

On February 16, 1971, the Alameda County Board of Supervisors adopted Resolution No. 137634, establishing agricultural preserves and implementing the California Land Conservation Act of 1965. For the 2004-05 assessment roll, Alameda County had slightly more than 134,400 acres (1,369 parcels) under CLCA contract, including approximately 1,000 acres in nonrenewal status. Nonrenewal status is when a government agency, or the owner of land subject to contract, has served a notice of withdrawal from the contract. The majority of the land under contract, approximately 128,500 acres, is rated non-prime and used primarily for grazing.

We reviewed parcels that were in nonrenewal status on the 2004-05 roll. This removal takes nine years after notice is filed. These properties are correctly being assessed with all calculations and values listed on a single computerized spreadsheet.

In our 2001 survey report, we made six recommendations to improve the assessor's CLCA program. First, we recommended that the assessor assess all vine and vineyard improvements and initiate roll corrections for escape assessments. The assessor has implemented this recommendation. Additionally, the assessor has taken a major initiative to update his records for all vineyard properties. These properties are being identified, inventoried, and appraised.

Second, we recommended that the assessor ensure that restricted living improvement values are not subject to the annual inflation adjustment. This recommendation has been implemented.

Third, we recommended that the assessor establish base year values for CLCA property. The assessor has implemented this recommendation by establishing base year values for vines on vineyard properties as of the year that they become taxable.

Fourth, we recommended that the assessor uniformly assess homesites on CLCA property. The assessor has implemented this recommendation. A single appraiser has been assigned to assess all CLCA property, and properly and consistently values homesites.

Fifth, we recommended that the assessor send annual CLCA questionnaires to property owners. The assessor has implemented this recommendation. Additionally, the assessor has designed an open land questionnaire with questions regarding compatible uses.

And last, we recommended that the assessor use available BOE forms to aid in the discovery of taxable property on agricultural land. This recommendation has been implemented. However, two other issues need to be addressed at this time.

RECOMMENDATION 2: Revise the CLCA program by: (1) classifying and enrolling living improvements as improvements, and (2) deducting a charge for return of the well value from income attributable to the property.

Classify and enroll living improvements as improvements.

The assessor incorrectly classifies and enrolls grapevines as land. Section 105 provides that improvements include all fruit, nut bearing, or ornamental trees and vines. Further, Rule 122 provides that improvements consist of planted fruit and nut trees and vines that are taxable. By classifying grapevines as land, the assessor is not following statutory provisions.

Deduct a charge for return of the well value from income attributable to the 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 the CLCA property. Wells are classified as land for property tax purposes. The charge for the return on and of the well value is included in the income attributable to the land. Pursuant to Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), Part II, page 24, "Irrigation Wells", wells are wasting assets. Therefore, a charge for return of the well value (or recapture) must be subtracted from the income stream. By failing to deduct a charge for the recapture of the investment in the well, the assessor overstates the net income to the property and overvalues the property.

Taxable Government-Owned Property

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

Taxable government-owned properties must be assessed at the lowest of: (1) the current fair market value, (2) the restricted value pursuant to section 11, or (3) the factored base year value. Generally, neither the current market value nor the restricted value play a significant roll since, in most cases, they far exceed the factored base year value.

There are 17,391 parcels on the 2004-05 assessment roll with zero assessed value; most are government-owned properties. The assessor cross checks a listing of government-owned property with tax-rate area listings to determine if the property is located inside or outside the entity boundaries. Those found to be within the entity boundaries are given a zero value; those outside the boundary that were taxable when acquired are assessed as taxable government-owned property.

The Alameda County Assessor identified and assessed 305 taxable government-owned properties for the 2004-05 assessment roll. The assessed value of these properties is approximately \$73,500,000. Our review indicates that taxable government-owned properties are identified and assessed properly in Alameda County.

Taxable Possessory Interests

A taxable possessory interest results from the possession, a right to possession, or a claim to a right to possession of publicly owned real property, in which the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. The assessment of a taxable possessory interest in tax-exempt publicly owned property is based on the value of the rights held by the possessor; the value of the rights retained by the public owner is almost always tax exempt.

The assessor enrolled over 4,300 taxable possessory interests (PI's) on the 2004-05 assessment roll totaling more than \$1.4 billion. These PI's are located on property owned by 73 public agencies. The assessor discovers taxable PI's from annual user reports submitted by tax exempt agencies, newspaper articles, and other sources.

In our 2001 survey, we recommended the assessor assess all taxable PI's unless they qualify for the low-value property exemption. This recommendation has been implemented. The county auditor-controller, pursuant to section 75.41(d), cancels any supplemental PI bill that is less than \$20 and, pursuant to section 4986.8, for all other PI billings of less than \$20. However, there are additional issues that need to be addressed.

RECOMMENDATION 3: Revise the PI assessment program by: (1) periodically reviewing all taxable PI's with stated terms of possession for declines in value pursuant to section 51, and (2) assessing PI's pursuant to section 61(b)(2).

Periodically review all taxable PI's with stated terms of possession for declines in value pursuant to section 51.

For the original year's assessment, the assessor uses the term of possession as defined by the contract. For subsequent years, the assessor applies the annual inflation factor to the base year value.

Section 51 requires the assessor to assess a PI at the lesser of its base year value (adjusted annually for inflation by no more than 2 percent) or its current fair market value, taking into consideration any reductions in value due to damage, depreciation, or any other factors causing a decline in value. In determining the current fair market value of a PI with a stated term of possession, Rule 21(d)(1) provides that the stated term of possession is presumed to be the reasonably anticipated term of possession unless there is clear and convincing evidence that the lessor and lessee have mutually agreed to a different term. Rule 21 also provides that the "stated term of possession" for a taxable PI is the remaining period of possession, which may have a material effect on the current fair market value of the interest.

Therefore, the assessor must estimate the market value of a PI with a "stated term of possession" as of the lien date, based on the remaining term of possession, compare this value with the factored base year value (FBYV), and enroll the lower of the two values. Although not required to reappraise all properties each year, the assessor should develop a program to periodically review the assessments of PI's with a stated term of possession to ensure that declines in value of PI's are consistently recognized.

Assess PI's pursuant to section 61(b)(2).

The assessor has revalued a number of PI's, leased on a month-to-month basis, prior to the expiration of his reasonably anticipated term of possession used in determining the initial values. The fairgrounds include a mobilehome park in which spaces are leased on a month-to-month basis. The assessor established a term of possession pursuant to Rule 21(d)(1) and (2). However, the assessor revalued the PI's prior to the expiration of the estimated term of possession used in determining the initial value. Section 61(b)(2) provides that any renewal or extension of a PI during the reasonably anticipated term of possession used by the assessor to value that interest does not cause a change in ownership until the end of the reasonably anticipated term of possession used by the assessor to value that interest. Thus, the assessor cannot revalue that interest unless there is a change in ownership or new construction.

Historical Property

Government Code section 50280 provides that an owner or agent of an owner of a qualified historical property may enter into a contract with the legislative body of a city, county, or city

and county restricting the use of that property in exchange for valuation according to a statutorily-prescribed capitalization of income method. Section 50280.1 stipulates that in order for a property to qualify as a historical property, it must be listed on the National Register of Historic Places or be listed on a state, county, or city register as historically or architecturally significant.

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

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

For the 2004-05 assessment roll year, there were ten historical properties in Alameda County, an increase of nine parcels over our previous 2001 survey. The restricted value is enrolled on nine properties and the factored base year value on one property. The appraisal files contain copies of the contracts with the local governments, and the ordinances establishing an historical preservation district or historical preservation zone. We found that the qualifying historical properties in Alameda County are correctly assessed.

Leasehold Improvements

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

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

When real property is reported on Form BOE-571-1, *Business Property Statement (BPS)*, coordination between the real property and business property sections of the assessor's office is important. The reported cost should be examined by both an appraiser in the real property section and an auditor-appraiser in the business property section. The sections should determine the proper classification of the property to ensure appropriate assessment by each section and avoid escapes and double assessments. The assessor must determine whether costs are for repair and maintenance and are, therefore, not assessable, whether additions are properly classified as structural improvements or fixtures, and/or if additions are properly enrolled.

We found the Alameda County Assessor properly classifies reported structural improvements on the secured roll and fixtures on the unsecured roll. Tenant improvements that are classified as structures are assessed by the real property section and tenant improvements that are classified as fixtures are assessed by the business personal property section.

The most common methods of discovery for leasehold improvements are a review of the BPS, building permits, and leases. Schedule B of the BPS is specifically for reporting real property installed by the tenant. Such taxpayers are annually required to list additions or deletions of real property.

The assessor's policy is to refer expenditures reported on schedule B, columns 1 and 4, exceeding \$50,000 to the real property section for review. The business property statements are flagged for referral by a check mark in box 2 on the front of the BPS. This check directs the support staff to forward a copy of Schedule B to the real property section.

In our 2001 survey, we recommended that the assessor ensure that his staff is aware of and follow policies and procedures for handling leasehold improvements. This recommendation is not being followed; therefore, we are repeating our previous recommendation.

RECOMMENDATION 4: Verify that structural improvements costing in excess of \$50,000 are properly processed.

We found several business property statements with structural improvements costing in excess of \$50,000 reported on schedule B that have not been forwarded to the real property section. Additionally, we found that, although it is the personal property section's procedure to send a copy of Schedule B of the BPS to the real property section when costs of \$50,000 or more are reported as structural improvements, the assessor does not always verify whether or not the reported structures were enrolled. Consequently, these properties may have escapes, double assessments, or be underassessed.

We compared the business property statements with the corresponding real property appraisal record. Even though box 2 (see above) was checked on the front of the BPS, we did not find a copy of schedule B with the property record and no notation on the property record. Communication between the real property and business property sections of the assessor's office should be documented. Without follow-up to verify enrollment, double assessments and escape assessments may occur.

Billboards

The discovery of billboards comes from business property statements submitted by outdoor advertising companies or building permits. The business property section assesses all permits received by the assessor for outdoor billboards. The billboards are valued using the methodology recommended by the California Assessors' Association (CAA) Billboard Committee. When billboards change ownership or are newly constructed, the base year value is established using cost data provided in the current California Department of Transportation (Caltrans) schedule. Each year thereafter, the factored base year value of the billboard is compared to the fair market

value established by the current Caltrans schedule and the lower value is enrolled. We reviewed several billboard assessments and found no problems.

Water Company Property

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

In our 2001 survey, we recommended that the assessor review annual county and state water supply source reports to discover assessable water company properties. We found that the recommendation has been implemented and that the assessor now uses the *State Department of Health Services Annual Report* to discover assessable water supply sources. In addition, the assessor also uses the annual report prepared by the Alameda County Health Services Department.

There is one private mutual water company located in Alameda County. This private mutual water company is not separately assessed. The water company property value is correctly assessed to the various lots that the company serves.

Regulated Water Companies

Private water companies, both regulated and unregulated, are utility companies that earn a profit from the sale of water. The California Public Utilities Commission (CPUC) regulates the rates charged by private water companies, limiting profits to an authorized return on the companies' investment. The market values of real property owned by regulated companies are tied directly to those rates. Rate regulation may result in the current market value of the real property being lower than its factored base year value.

Alameda County has only one regulated water company. The assessor annually updates the historical cost less depreciation method and develops a market value indicator for the real property. The market value indicator is then compared to the factored base year value and the lower of the two values is enrolled. To assist in the valuation process, the assessor annually obtains a utility water company property statement, a business property statement, and the annual CPUC report.

Our examination of the assessment of the regulated water company in Alameda County indicates that the assessor is properly assessing this property.

Municipal Water Systems

Article XIII, section 3(b) of the California Constitution exempts from taxation property owned by a local government and located within its boundaries. This includes both property owned by city water departments and located within city limits, and property owned by water districts located within district boundaries. When the water system is located outside of the government agency's boundaries, this exemption does not apply. Article XIII, section 11 of the California

Constitution provides that publicly-owned property (including a water system) located outside its boundaries is taxable if it was taxable at the time it was acquired by the district.

We found parcels owned by municipal water systems located within the city limits or district boundaries to be correctly exempted. The parcels owned by municipal water systems and located outside of their boundaries were also correctly assessed. For the 2004 assessment year, four municipal water systems located in Alameda County were assessed at over \$61,000,000.

Pipeline Rights-of-Way

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

Alameda County uses the three density classifications found in section 401.10(a)(1)(A). The 1975-76 base year values for these classifications are:

- high density, valued at \$20,000 per mile;
- transitional density, valued at \$12,000 per mile; and
- low density, valued at \$9,000 per mile.

Alameda County has five pipeline right-of-way assessments on the local roll with a total assessed value of \$ 3,319,845. One supervising appraiser is responsible for all pipeline right-of-way assessments. The assessor maintains a separate base year value for each separate right-of-way interest, but assesses the rights-of-way to a single countywide tax rate area in accordance with section 401.8(a).

We reviewed the work sheets of all five assessments and confirmed that the values had been correctly factored from their 1975 base year and found that all pipeline right-of-way assessments in Alameda County are correctly valued pursuant to sections 401.8 through 401.12.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The assessor's program for assessing personal property and fixtures includes the following major elements:

- Discovery and classification of taxable personal property and fixtures.
- Mailing and processing of annual property statements and questionnaires.
- Annual revaluation of taxable personal property and fixtures.
- Auditing taxpayers whose assessments are based on information provided in property statements.

In this section of the survey report, we review the assessor's audit, business property statement processing, business property valuation, and leased equipment discovery and assessment programs; and the assessment of manufactured homes, aircraft, and vessels.

Audit Program

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

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

FISCAL YEAR	TOTAL AUDITS	MANDATORY AUDITS	NONMANDATORY AUDITS
2003-04	642	630	12
2002-03	672	592	80
2001-02	571	538	33
2000-01	769	725	44

Mandatory Audits

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

The assessor completes approximately 621 mandatory audits per year. All mandatory audits scheduled during the 2003-04 fiscal year were completed timely. The assessor has an effective mandatory audit-tracking program.

In our 2001 survey, we recommended that the assessor bring the mandatory audit program to current status. We found that the assessor is now current on his mandatory audit workload. We have no further recommendations for this program.

Nonmandatory Audits

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

The assessor understands the importance of maintaining a nonmandatory audit program. There were seven nonmandatory audits completed in fiscal year 2004-05 and 169 completed during the preceding four years.

Statute of Limitations

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

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

Audit Quality

An audit should follow a standard format so that the auditor-appraiser may easily determine whether the property owner has correctly reported all taxable property. Audit narratives and summaries should include adequate documentation, full value calculations, reconciliation of the fixed assets totals to the general ledger and financial statements, review of asset invoices, reconciliation between reported and audit amounts, an analysis of expense accounts, and an analysis of depreciation and obsolescence factors that may affect the value of the business property.

We found both mandatory and non-mandatory audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation. We commend the assessor for his excellent audit program.

Business Property Statement Program

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

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

We reviewed the assessor's property statement processing procedures and application of correct procedures by reviewing selected files. Only BOE-prescribed property statements are used. Taxpayers are allowed to submit attachments in lieu of completing the statements. Section 463 penalties are applied to all late and nonfiled business property statements.

In our 2001 survey, we recommended that the assessor screen signatures on business property statements to ensure compliance with Rule 172 which requires assesseees to provide written authorization for statements signed by an agent or employee other than a member of the bar, a certified public accountant, a public accountant, or a duly appointed fiduciary. We found the assessor is now in compliance with Rule 172.

Business Equipment Valuation

Commercial, Industrial, and Agricultural Equipment

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

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

The assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). The price indices parallel the indices published in AH 581 with the exception of specific types of equipment, e.g., pagers, facsimile equipment, and photocopiers, that the CAA recommends should not be trended. Accounts are coded in the computer system using Standard Industry.

In our 2001 survey, we recommended that the assessor properly classify and assess apartment personal property, and use the BOE's recommended price index and percent good factors in AH 581 as intended.

The assessor has implemented the first recommendation by adopting procedures for correctly assessing household personal property for apartments. As a result, the assessor is now classifying and assessing apartment personal property separately from land and improvements. Concerning the second recommendation, we found that the assessor now uses the CAA tables with minimum percent good factors based on the Marshall Valuation Service pursuant to section 401.16. However, there are still problems with specific types of equipment, e.g., facsimile equipment, and photocopiers, that the CAA recommends should not be trended. Thus, we repeat that recommendation.

RECOMMENDATION 5: Use Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, as intended.

The assessor continues to use untrended valuation factors for specific types of property, including facsimile equipment and photocopiers, as recommended by the CAA. These factors are not supported by a study. The assessor has no supporting evidence for using such factors.

Index factors recognize events such as price changes and technological progress, and are intended to reflect the price of a new replacement. The percent good factors are intended to reflect the average loss in value suffered by specific types of properties over their expected service lives. The percent good factors contained in the AH 581 are based on the premise that these types of properties lose value as they age.

When valuing property, appraisers must analyze individual property items for deviations from the norm and, if such deviations exist, it is appropriate to adjust the valuation factor to reflect the deviation. However, establishing unsupported valuation factors is not an acceptable appraisal practice.

Leased Equipment

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

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

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

We found that the assessor is in compliance with generally accepted assessment practices relating to leased equipment assessment.

Manufactured Homes

A "manufactured home" is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842. A manufactured home is subject to local property taxation if sold new on or after July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property

taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.

The following table shows the number and assessed value for manufactured homes in Alameda County for recent years.

ROLL YEAR	MANUFACTURED HOME IN PARKS	ASSESSED VALUE	OUTSIDE OF PARKS	ASSESSED VALUE
2004-05	1,267	\$55,821,715	125	\$5,085,100
2003-04	1,180	\$51,246,692	130	\$5,506,373
2002-03	1,118	\$48,863,593	107	\$4,740,586
2001-02	988	\$41,516,219	126	\$5,534,249
2000-01	942	\$38,710,274	46	\$2,263,402

In determining the full cash value of a manufactured home on rented or leased land, the assessor, pursuant to section 5803, must take into consideration sales prices listed in recognized value guides for manufactured homes. Recognized value guides include, but are not limited to, the *Kelley Blue Book Official Manufactured Housing Guide* and the *N.A.D.A. Manufactured Housing Appraisal Guide* (NADA).

We reviewed several manufactured home assessments, including transfers and new installations of manufactured homes, and found them to be well documented.

One real property appraiser appraises all manufactured homes in rental parks and on fee land. Those homes are classified as improvements and are on the secured roll. The assessor uses a recognized value guide in all appraisals of manufactured homes that have transferred during the assessment year. The assessor includes the value of accessories such as awnings, porches, and skirting, as well as general overall condition of the manufactured home when estimating the value.

In the 2001 survey, we recommended that the assessor annually assess manufactured homes at the lesser of their factored base year value (FBYV) or market value. The assessor has implemented that recommendation and now uses a recognized value guide. He compares that guide value to the FBYV and enrolls the lesser of the two values.

Aircraft

General Aircraft

General aircraft are privately owned aircraft that are used for pleasure or business but that are not authorized to carry passengers, mail, or freight on a commercial basis (general aircraft contrast with certificated aircraft, discussed below). Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE

approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference (Vref)* as an alternative guide for aircraft not listed in the *Bluebook*.

The Alameda County Assessor's Office assessed 870 general aircraft (other than historical aircraft) on the 2004-05 assessment roll with a total value of approximately \$271,990,000. Two auditor-appraisers, one responsible for valuing general aircraft and the other responsible for certificated aircraft, assisted by two specialist clerks administer the assessor's aircraft program. The assessor discovers general aircraft through the airport manager's hangar reports, airport operators' tenants' lists, other counties' referrals, Federal Aviation Administration reports, and physical inspections.

An aircraft property statement is mailed each year to the known owner of each aircraft in the county requesting information. The statement lists the aircraft and requests the owner to report added or deleted equipment, engine air hours since last major overhaul, date of last overhaul, overall condition, and transfer information if the aircraft has been sold since the last lien date.

Upon receipt of the aircraft property statement, the auditor-appraiser incorporates adjustments for sales tax, overall condition of the aircraft, additional or special equipment, airframe hours, and engine hours since last major overhaul, to determine a market value estimate. The values of newer aircraft are most affected by the presence or lack of optional equipment, while the values of older aircraft are influenced more by the condition of the aircraft.

In our 2001 survey, we recommended that the assessor verify an aircraft's condition before granting a reduction in assessment. The assessor has implemented this recommendation by requiring the taxpayer to submit a copy of the logbook page showing engine hours and required airframe time. Additionally, taxpayers claiming extraordinary obsolescence or deferred maintenance are requested to submit another form (*Aircraft Review Form*), and furnish evidence, such as photographs or third party documentation, in support of their claims.

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

Certificated Aircraft

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

Several commercial airlines fly in and out of Oakland International Airport, which is located in Alameda County. For the 2004-05 assessment year, the assessor enrolled 23 commercial aircraft accounts with an assessed value of approximately \$740 million.

The auditor-appraiser in charge of certificated aircraft predicates his appraisals on the aircraft business property statements' reported costs. The auditor-appraiser then applies a percentage, based on ground and flight time and the number of arrivals and departures in Alameda County during the representative period to the calculated fleet value, to derive a pro rata estimate of the value for certificated aircraft.

We reviewed the certificated aircraft appraisal procedures and found them to be correctly administered and the estimates of values to be properly calculated.

Historical Aircraft

Aircraft of historical significance can be exempted from taxation if they meet certain requirements. Section 220.5 defines "aircraft of historical significance" as (1) an aircraft that is an original, restored, or replica of a heavier than air, powered aircraft 35 years or older; or (2) any aircraft of a type or model of which there are fewer than five such aircraft known to exist worldwide.

The historical aircraft exemption is not automatic. Each year, the owner of a historical aircraft must submit an affidavit on or before 5:00 p.m., February 15, paying a filing fee of \$35 upon the initial application for exemption. Along with these requirements, aircraft of historical significance are exempt only if the following conditions are met: (1) the assessee is an individual owner who does not hold the aircraft primarily for purposes of sale; (2) the assessee does not use the aircraft for commercial purposes or general transportation; and, (3) the aircraft was available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which exemption is claimed.

For the 2004-05 assessment roll, the assessor recognized 108 aircraft of historical significance with a full value of \$6,657,600 and an exempt value of \$5,410,720. We reviewed several historical aircraft affidavits and found that there are no problems.

Vessels

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

The assessor valued more than 11,000 vessels on the 2004-05 assessment roll with a total assessed value of approximately \$296 million.

Two auditor-appraisers, assisted by two specialist clerks administer the assessor's vessel program. The primary sources of discovery are DMV reports, marina lists, and referrals from other counties. Vessels are valued using data from the *BUC Used Boat Price Guide*. If current or reliable information is not available in the published value guides, the assessor uses the values of similar vessels in the harbor, values of similar vessels within the assessor's own database, or the internet to obtain current, comparable sales data.

Certain commercial vessels may qualify for a 96 percent exemption if they meet the requirements in section 227. To qualify for the exemption, the owner of the vessel must file an *Affidavit for 4 Percent Assessment of Certain Vessels* (BOE-576-E). If the taxpayer files an affidavit by February 15, a 96 percent exemption may be granted. When filed after February 15, but before August 1, the assessor may still grant a reduced exemption of 76.8 percent. However, no exemption may be granted for those taxpayers filing an affidavit after August 1.

There are approximately 40 commercial vessels that potentially qualify for the 96 percent exemption provided in section 227 for the 2004-05 assessment year. We sampled several exempt vessels and found that the exemption forms were filed and exemptions granted as appropriate.

In our 2001 survey, we recommended that the assessor: (1) apply the 10 percent penalty for late filed or non-filed Form BOE 576-D, *Vessel Property Statement*, and (2) allow a reduced preferential assessment amount pursuant to section 275.5, for late-filed documented vessel affidavits. The assessor revised his procedures and has implemented both recommendations. Our review found that the assessor has properly implemented section 275.5 and reduced documented vessel exemptions for late-filed exemptions.

We also sampled several commercial vessels other than the exempt vessels and pleasure vessels and found that section 463 penalties were properly applied for late property statements and that appropriate valuation methods were employed.

The assessor uses Form BOE-576-D, *Vessel Property Statement*, and Form BOE-576-E, *Affidavit for 4 Percent Assessment of Certain Vessels*, to solicit information from taxpayers. Form BOE 576-D is used to annually solicit information from registered vessel owners who own assessable vessels in the county in excess of \$100,000. In addition to these BOE-prescribed forms, the assessor uses *Vessel Owner's Report* (VOR), a non Board-prescribed form. The assessor does not impose section 463 penalties for failure to timely file a VOR because it is not a BOE-prescribed form.

We found the procedures for processing, appraising, and assessing vessels well outlined and consistently followed.

APPENDIXES

A. County Property Tax Division Survey Group

Alameda County

Chief, County Property Tax Division

Mickie Stuckey

Survey Program Director:

Arnold Fong

Principal Property Appraiser

Survey Team Supervisor:

Bob Reinhard

Supervising Property Appraiser

Survey Team Leader:

Carlos Zaragoza

Senior Specialist Property Auditor Appraiser

Survey Team:

James Lovett

Senior Specialist Property Appraiser

Robert Curry

Associate Property Appraiser

Robert Donay

Associate Property Appraiser

Charles Matura

Associate Property Appraiser

Tom McClaskey

Associate Property Appraiser

Robert Rossi

Associate Property Appraiser

Nick Winters

Associate Property Appraiser

Lloyd Allred

Associate Property Auditor-Appraiser

Pam Bowens

Associate Property Auditor-Appraiser

Erica Fisher

Office Technician

Blanca Ordonez

Tax Technician II

B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing² activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

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

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

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

These assessments are stratified into 18 value strata (nine secured and nine unsecured.)³

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

For purposes of analysis, after the sample is drawn, the items are identified and placed into one of the five categories listed below:

Base year properties. Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

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

² The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

³ The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$99,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

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

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

Unsecured properties. Those properties on the unsecured roll.

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

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

Base year properties -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?

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

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

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

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

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

The results of the sample are then expanded as described above. The expanded results are summarized according to the five assessment categories and by property type and are incorporated into the published assessment practices survey report.

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

C. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

15641. Audit of Records; Appraisal Data Not Public.

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

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

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

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

15642. Research by board employees.

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

15643. When surveys to be made.

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

15644. Recommendations by board.

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

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

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

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

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

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

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

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

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

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

(b) For purposes of this section:

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

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

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

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

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

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

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

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

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

Rule 371. Significant assessment problems.

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

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

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

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

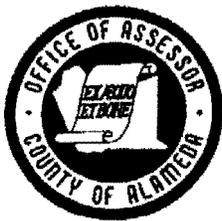
- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and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

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

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

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



**OFFICE OF ASSESSOR
COUNTY OF ALAMEDA**

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(510) 272-3755 / FAX (510) 208-3970

**RON THOMSEN
ASSESSOR**

July 12, 2006

Ms. Mickey Stuckey
County Property Tax Division
State Board of Equalization
P.O. Box 942879
Sacramento, CA 94279-0062

Dear Ms. Stuckey:

Pursuant to section 15645 of the Government Code, please find enclosed our written response to the findings and recommendations in the April 2006 Alameda County Assessment Practices Survey.

We are proud of your recognition of the many enhancements our office has achieved since the publication of our last assessment practices survey dated April 2001, and the Supplemental Assessment Practices Survey dated July 2003. These enhancements are a direct result of the hard work and dedication of our excellent staff.

We thank you and the entire survey team for the professional manner in which the survey was conducted. This survey will become a working document to guide our continued accurate and fair assessment of property in Alameda County.

Yours truly,

A handwritten signature in cursive script that reads "Ron Thomsen".

Ron Thomsen
Assessor

RKT:ic
Attachments

RESPONSE TO SURVEY

Recommendation 1: *Use the existing assessments for land and improvements to determine the percentage reduction due to a disaster.*

On properties that have a base year established by an appraisal of the individual components, we agree and it is our policy to provide calamity relief against the existing base year value without adjustments to the land and improvement allocation.

A base year value established by a change in ownership, however, is based on the market value of the real property in its entirety and not an appraisal of the individual land and improvement components. In these cases, our initial allocation may or may not have a direct relation to the actual market value of either individual component.

Our policy therefore is to examine the allocation made for these types of base year values and to make adjustments as appropriate before providing damage relief. By examining our allocation and adjusting the allocation where warranted before providing the calamity relief, we provide the taxpayer with the greatest intended amount of relief authorized under section 170, not relief based on an arbitrary allocation made at the time of purchase.

Recommendation 2: *Revise the CLCA program by: (1) classifying and enrolling living improvements as improvements, and (2) deducting a charge for return of the well value from income attributable to the property.*

- (1) We respectfully disagree with Staff's opinion. Section 105 (b) states that vines are improvements. However, that section does not distinguish between improvements that are assessed separately from the land and improvements to the land that are assessed as part of the land. Our view is that vines represent improvements to the land and are properly assessed as such.
- (2) We concur and we will alter our procedure. However, we note that this change will result in an insignificant change to the total income stream and likely will not affect the value conclusion for those CLCA properties with wells.

Recommendation 3: *Revise the PI assessment program by: (1) periodically reviewing all taxable PI's with stated terms of possession for declines in value pursuant to section 51, and (2) assessing PI's pursuant to section 61(b)(2).*

- (1) We concur with this recommendation. When implemented, the possessory interest module of our new computer system will allow staff to annually review each possessory interest account whose value is based on a stated term of possession for a decline in value.
- (2) We concur with this recommendation and we have reminded staff how to properly apply the anticipated term of possession when no change in ownership has occurred.

Recommendation 4: *Verify that structural improvements costing in excess of \$50,000 are properly processed.*

We concur. We have reminded our staff of the importance of following our business property statement processing policies and procedures.

Recommendation 5: *Use Assessors' Handbook Section 581, Equipment Index and Percent Good Factors, as intended.*

We respectfully disagree with Staff's recommendation. With respect to photocopiers and similar equipment, studies exist that support the CAA recommendations and the CAA and industry have worked together to determine appropriate lives and rates of depreciation. Furthermore, the factors in AH 581 do not consider scrap or salvage value. Commercially produced valuation guides support the use of minimum values where the property has scrap or salvage value. The CAA has adopted the reasonable position that prudent business property owners will sell property for its scrap or salvage value rather than discard it.