

ALAMEDA COUNTY ASSESSMENT PRACTICES SURVEY

APRIL 2001

CALIFORNIA STATE BOARD OF EQUALIZATION

JOHAN KLEHS, HAYWARD
DEAN ANDAL, STOCKTON
CLAUDE PARRISH, TORRANCE
JOHN CHIANG, LOS ANGELES
KATHLEEN CONNELL, SACRAMENTO

FIRST DISTRICT
SECOND DISTRICT
THIRD DISTRICT
FOURTH DISTRICT
STATE CONTROLLER

JAMES E. SPEED, EXECUTIVE DIRECTOR





STATE BOARD OF EQUALIZATION

PROPERTY TAXES DEPARTMENT

450 N STREET, MIC: 62, SACRAMENTO, CALIFORNIA

(PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0062)

TELEPHONE (916) 324-5827

FAX (916) 323-5689

www.boe.ca.gov

JOHAN KLEHS
First District, HaywardDEAN ANDAL
Second District, StocktonCLAUDE PARRISH
Third District, TorranceJOHN CHIANG
Fourth District, Los AngelesKATHLEEN CONNELL
State Controller, Sacramento

April 30, 2001

TO COUNTY ASSESSORS:

JAMES E. SPEED
Executive Director

2001/028

ALAMEDA COUNTY
ASSESSMENT PRACTICES SURVEY

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 John N. Scott, who was the Alameda County Assessor during the survey, 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 and the county assessor's response constitute the final survey report which, pursuant to Government Code section 15646, is distributed to the Governor, the Attorney General, the State Legislature, and the Alameda County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

The BOE's County Property Tax Division performed the fieldwork for this survey of the Alameda County Assessor's Office between September 1999 and April 2000. This report does not reflect changes implemented by the assessor after the fieldwork was completed.

The survey process inherently requires the interruption of normal office work routines. We thank Mr. Scott and his staff for their cooperation and patience.

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

Sincerely,

Richard C. Johnson
Deputy Director
Property Taxes Department

RCJ:jm
Enclosure

TABLE OF CONTENTS

INTRODUCTION.....	1
SCOPE OF ASSESSMENT PRACTICES SURVEYS.....	2
EXECUTIVE SUMMARY.....	3
RESULTS OF THE 1996 SURVEY	7
OVERVIEW OF ALAMEDA COUNTY AND THE ASSESSOR’S OFFICE	9
ADMINISTRATION	11
TRAINING	11
ROLL CHANGE PROCEDURES.....	11
ASSESSMENT APPEALS	12
LOW-VALUE PROPERTY EXEMPTION.....	13
DISASTER RELIEF	13
STATE-COUNTY PROPERTY TAX ADMINISTRATION LOAN PROGRAM	14
ASSESSMENT OF REAL PROPERTY.....	16
CHANGE IN OWNERSHIP	16
NEW CONSTRUCTION	17
SUPPLEMENTAL ASSESSMENTS.....	18
DECLINE IN VALUE.....	19
TAXABLE GOVERNMENT-OWNED PROPERTY	19
CALIFORNIA LAND CONSERVATION ACT PROPERTY	20
HISTORICAL PROPERTY	22
WATER PROPERTIES	23
TAXABLE POSSESSORY INTERESTS	24
TENANT IMPROVEMENTS.....	25
ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES	27
BUSINESS PROPERTY STATEMENT PROCESSING.....	27
BUSINESS PROPERTY VALUATION	28
AUDIT PROGRAM.....	29
AIRCRAFT.....	29
VESSELS	31
MANUFACTURED HOMES	32
ANNUAL RACEHORSE TAX RETURNS	32
APPENDIX	33
A: COUNTY PROPERTY TAX DIVISION SURVEY GROUP.....	33
B: ASSESSMENT SAMPLING PROGRAM.....	34
C: RELEVANT STATUTES AND REGULATIONS	37
ASSESSOR’S RESPONSE TO BOE’S FINDINGS	43

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 enormous impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest comes from the fact that half or more of all property tax revenues are used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

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

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

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

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, 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 performance of other duties enjoined upon the assessor, and the volume of assessing work as measured by property type. As directed by Government Code section 15644, this survey report includes recommendations for improvement to the practices and procedures found by the BOE's survey team.

In addition, Revenue and Taxation Code section 75.60¹ requires the BOE to certify that the county assessment roll meets a minimum assessment level. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix 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 with information relevant to the property tax assessment program.

This survey also included an assessment sample of the 1999-2000 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.

An assessment practices survey is not an audit of the assessor's entire operation. We do not examine internal fiscal controls, nor the internal management of an assessor's office outside those areas related to assessment.

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

EXECUTIVE SUMMARY

In our 1996 Assessment Practices Survey of Alameda County, we made 13 recommendations addressing problems found in the assessor's policies and procedures. The assessor fully implemented seven of the changes we recommended, partially implemented two, and did not implement four. Most of the recommendations that were not implemented, or implemented only in part, are repeated in this report.

- The assessor has effective programs for the discovery and appraisal of properties that experience changes in ownership and declines in value.
- When making roll changes and processing assessment appeals, the assessor complies with the appropriate Revenue and Taxation Code sections.
- Assessments of enforceably restricted historical properties are properly reviewed and documented, as are taxable government-owned properties.
- Although the assessor's staff appraisers have made improvements towards meeting their annual mandatory training requirements, several still remain behind.
- Disaster relief policies and procedures need revision to reflect statutory changes. The assessor should strongly urge fire protection agencies to supply fire reports to aid in the discovery of properties eligible for disaster relief.
- To aid in the discovery of assessable new construction, the assessor should obtain building permits from all issuing agencies and record all relevant building permit data.
- For properties experiencing new construction, the assessor should improve appraisal record documentation. In addition, the assessor must reappraise construction in progress as of each lien date.
- To improve the discovery of taxable property on agricultural land, the assessor should use the BOE forms designed for that purpose and improve his utilization of other discovery sources.
- The assessor should enroll vineyards and vineyard improvements that have escaped assessment.
- When assessing California Land Conservation Act properties, the assessor must (1) ensure that restricted living improvement values are not subject to the annual CCPI adjustment, (2) set proper base year values, and (3) assess homesites uniformly.
- Although water company properties are assessed correctly, the assessor should review county and State water supply source reports to discover potential escape assessments.

- Several low-value taxable possessory interests are not assessed and the assessor has no authority to exempt them from taxation.
- When taxpayers report structures on business property statements, the assessor should ensure that the business property division follows established procedures for communicating that information to the real property division. Additionally, when the real property division does receive that information, it should be recorded in the appraisal records.
- Proper signatures were missing from some business property statements.
- In some instances the assessor incorrectly classified apartment personal property as improvements for apartment properties under 100 units.
- While the assessor has an effective equipment valuation program, he employs minimum valuation factors. We recommend that the assessor discontinue the practice of limiting valuation factors to an arbitrary minimum level.
- Section 469 requires the assessor to maintain a mandatory audit program; however, he has kept only 95 percent of those audits current.
- Two recommendations address the assessment of aircraft: updating zero-value aircraft accounts and verifying aircraft condition when reducing assessments.
- Despite having an effective vessel assessment program, the assessor must apply penalties to non-filers of vessel property statements and impose a reduced exemption when claimants file vessel exemption applications late.
- The assessor should review manufactured homes annually for declines in value.
- The Alameda County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 1999-2000 assessment roll indicated an average assessment ratio of 99.92 percent, and the sum of the absolute differences from the required assessment level was 1.80 percent. Accordingly, the BOE certifies that Alameda County is eligible to continue receiving reimbursement of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1:	Ensure that appraisers meet the section 671 annual training requirements.....	11
RECOMMENDATION 2:	Allocate disaster relief values in proportion to the existing base year land and improvement values.....	14
RECOMMENDATION 3:	Obtain all building permits from all permit-issuing agencies....	17

RECOMMENDATION 4:	Record all building permit activity on appraisal records.	17
RECOMMENDATION 5:	Assess all construction in progress at market value on each lien date.	18
RECOMMENDATION 6:	Assess all vine and vineyard improvements and initiate roll corrections for escape assessments.	21
RECOMMENDATION 7:	Ensure that restricted living improvement values are not improperly subject to the annual CCPI adjustment.	21
RECOMMENDATION 8:	Establish base year values for CLCA property.	21
RECOMMENDATION 9:	Uniformly assess homesites on CLCA property.	21
RECOMMENDATION 10:	Send annual CLCA questionnaires to property owners.	22
RECOMMENDATION 11:	Use available BOE forms to aid in the discovery of taxable property on agricultural land.	22
RECOMMENDATION 12:	Review annual county and State water supply source reports to discover assessable water company properties.	23
RECOMMENDATION 13:	Assess all taxable possessory interests unless they qualify for the low-value property exemption.	25
RECOMMENDATION 14:	Ensure that staff appraisers are aware of and follow business property statement processing policies and procedures.	26
RECOMMENDATION 15:	Screen property statements to ensure they have the proper signatures.	27
RECOMMENDATION 16:	Properly classify and assess apartment personal property.	27
RECOMMENDATION 17:	Discontinue the use of arbitrary minimum valuation factors.	28
RECOMMENDATION 18:	Complete all mandatory audits required by section 469.	29
RECOMMENDATION 19:	Review and update zero-value aircraft accounts.	30
RECOMMENDATION 20:	Verify an aircraft's condition before granting a reduction in assessment.	30
RECOMMENDATION 21:	Apply the 10 percent penalty to all <i>Vessel Property Statement</i> late filers and non-filers, pursuant to section 463.	31
RECOMMENDATION 22:	Implement the section 275.5 reduced documented vessel exemption for late-filed exemption affidavits.	31

RECOMMENDATION 23: Annually assess manufactured homes at the lesser of their factored base year value or full cash value..... 32

RESULTS OF THE 1996 SURVEY

New Construction

We recommended the assessor review his new construction cost factors. The assessor now uses Assessors' Handbook Section 531, *Residential Building Costs*, when appraising residential new construction.

Leasehold Improvements

We recommended the uniform assessment of leasehold improvements. Although the assessor now has procedures in place designed to ensure that leasehold improvements are treated consistently by both the real property and business property divisions, we found those procedures are not always followed. We now recommend the real property and business property divisions use those procedures designed to promote the uniform assessment of leasehold improvements.

Taxable Possessory Interests

We had recommended the assessor reappraise taxable possessory interests when a lessee has exercised an option to renew. We found that the assessor now tracks possessory interests and creates an annual report of those possessory interests on which the contract term of possession has expired. Those possessory interests receive an appraiser's review to determine whether an appraisal is required.

Manufactured Homes

We recommended the assessor improve his manufactured home appraisal records. We found noticeable improvements in the quality of the assessor's manufactured home appraisal records, including sketches of manufactured homes, living area computations, and descriptions of additives. The assessor's staff updates this information upon a change in ownership or the installation of a new manufactured home.

Disaster Relief

The assessor's disaster relief procedures continue to need revision to reflect current statutory requirements. We again found problems in the assessor's procedures. We repeat that recommendation in this report.

We found that the Alameda County disaster relief ordinance has been revised to reflect current disaster relief statutory requirements.

Mandatory Audits

We recommended the assessor timely perform all audits required by section 469. Consequently the assessor made distinct improvements to his mandatory audit program. While he still failed to fully meet the requirements of section 469, 95 percent of those audits were completed on-time.

Aircraft

The assessor has complied with our previous survey recommendations to appraise aircraft at market value and improve his discovery of aircraft.

Vessels

We made two multi-part recommendations regarding the assessment of vessels; the assessor has partially implemented both of them. However, the assessor inconsistently applies the 10 percent late-filing or non-filing penalty for *Vessel Property Statements* and the reduction in exemption for late-filed vessel exemption claims. We repeat those recommendations in this report.

Equipment Valuation

We recommended the assessor use price trending factors applicable to the category of equipment being appraised. In our current survey, we found that the assessor is now properly applying these factors, with one exception: the assessor establishes arbitrary minimum valuation factors for commercial, industrial, agricultural, and construction equipment. We repeat and clarify our recommendation to use the equipment index factors as intended.

OVERVIEW OF ALAMEDA COUNTY AND THE ASSESSOR'S OFFICE

Alameda County is a major West Coast port and major manufacturing center stretching along the east side of the San Francisco Bay. The San Francisco-Oakland Bay Bridge links Oakland, the county seat, with the City and County of San Francisco. Contra Costa County borders Alameda County to the north, San Joaquin and Stanislaus Counties border on the east, Santa Clara on the south, and the San Francisco Bay to the west.

Despite increased workloads, the Alameda County Assessor's staffing levels have remained stable during the past three fiscal years. From the 1995-96 to 1998-99 fiscal years, the assessor's budget increased 25.7 percent.²

In dollar value, Alameda County has the fifth largest local assessment roll of the 58 counties in California. The following chart displays pertinent information from the 1999-00 assessment roll.

<u>Property Type</u>	<u>Number of Assessments</u>		<u>Enrolled Values</u>
	<u>in County</u>		
Residential	368,213		
Miscellaneous	5		
Rural	3,748		
Commercial/Industrial	<u>25,308</u>		
Total Secured Roll	397,274		\$83,153,036,000
Total Unsecured Roll (personal property except manufactured homes)	<u>54,800</u>		<u>8,304,722,000</u>
Total Roll	452,074		<u>\$91,457,758,000</u>

Staffing, Budget, & Workload

Since the 1994-95 roll year, the total value of county-assessed property on the regular assessment roll in Alameda County has increased as follows:³

² 1997-1998 Alameda County Budget and the BOE publication *A Report of Budgets, Workloads, and Assessment Appeal Activities in California Assessors' Offices*, 1998-1999.

³ Table source: BOE Annual Reports, Table 7.

Roll Year	Total Roll Value	Increase	Statewide Increase
94-95	\$76,639,586,000	3.1	1.3
95-96	\$78,883,958,000	2.9	0.7
96-97	\$81,477,446,000	3.3	1.3
97-98	\$84,957,360,000	4.3	2.8
98-99	\$91,457,758,000	7.7	4.9

The assessor prepared the 1999-2000 assessment roll containing approximately 460,000 assessments, on an approved budget of \$13,022,025 (1998-99). This budget funded 170 full-time positions.⁴ The professional staff budgeted to handle the real and business property workload consists of 8 managers, 61 real property appraisers, and 26 auditor-appraisers.

The real property workload for the 1999-2000 assessment year included about 45,000 transfers and approximately 12,700 reassessments resulting from new construction. The real property division staff also conducted approximately 30,000 reviews for declines in value. In addition, the real property staff reviewed approximately 1,100 properties restricted by the California Land Conservation Act (CLCA), prepared assessment appeals, and processed disaster relief applications.

For the 1999-2000 assessment year, the business property division staff processed approximately 54,000 property assessments, and valued 850 general aircraft, 80 historical aircraft, 20 commercial aircraft accounts, and 14,129 vessels. In addition, the business property division staff completed 598 mandatory audits.

Assessor's Budget⁵

Budget Year	Gross Budget	Percent Change	PTAP Funds Received
1994-95	\$ 9,816,934		
1995-96	\$10,360,151	5.5% Increase	\$1,743,043
1996-97	\$11,112,140	7.3% Increase	\$2,152,429
1997-98	\$11,739,378	5.6% Increase	\$2,152,429
1998-99	\$13,022,025	10.9% Increase	\$2,152,429

Starting in the 1995-96 fiscal year, the assessor received additional funds provided by the State-County Property Tax Administration Loan Program (PTAP). This program provides state-funded loans, with repayment tied to certain performance measures. If the performance measures are met, the loans are considered repaid. The county assessor received \$8,200,330 over the last four fiscal years.

⁴ Source Documents: "Office of Assessor 1997-1998 Final Budget Report" and the BOE publication *A Report of Budgets, Workloads, and Assessment Appeal Activities in California Assessors' Offices, 1997-1998*.

⁵ Source Document: "Office of Assessor Final Budget Report"

ADMINISTRATION

This portion of the survey report focuses on the administrative policies and procedures of an assessor's office that affect both the real and personal property assessment programs. We examined the training and qualifications of the assessor's appraisal staff, the handling of corrections and changes to completed assessment rolls, the preparation and presentation of assessment appeals, the assessment of property eligible for disaster relief and the low-value property exemption, and the assessor's participation in the State-County Property Tax Administration Loan Program.

Training

Section 670 requires all persons who perform the duties of an appraiser for property tax purposes to hold a valid certificate issued by the BOE. Section 671 further provides that all appraisers who hold such a certificate must complete at least 24 hours of annual training. This requirement is reduced to 12 hours if an appraiser holds an advanced certificate.

Although we found that all appraisers possess the required certificate, we do have one recommendation addressing the appraisers' training and qualifications.

RECOMMENDATION 1: Ensure that appraisers meet the section 671 annual training requirements.

The BOE's training unit provides each assessor with an annual report, summarizing each appraiser's training and certification status. Due to the assessor's active response to prior BOE training reports, training deficits have improved markedly. The June 30, 1998 report for Alameda County indicated that 11 of 62 staff appraisers had deficits of 40 or more required training hours. Although we have seen an improvement, we recommend the assessor ensure that his appraisers remain current in their annual training requirements.

Roll Change Procedures

Roll changes occur when the assessor changes assessed values after the assessment roll has been turned over to the county auditor. After the roll is delivered to the auditor, changes may be made, with a few exceptions, any time within four years of the date of the assessment that is being corrected. Roll changes are authorized for a variety of reasons by sections 531, 4831, and 4831.5. The most typical roll changes result from escaped new construction, clerical errors, and current market values that are less than factored base year values.

We reviewed the assessor's roll change process and procedures. The assessor's procedures comply with the applicable Revenue and Taxation Code sections.

Assessment Appeals

The assessment appeals function is authorized under article XIII, section 16, of the California Constitution. Sections 1601 through 1641.1 are the statutory provisions governing county boards of supervisors in the appeals function. In addition, Government Code section 15606(c) directs the BOE to prescribe rules and regulations to govern local boards of equalization. Pursuant to that mandate, the BOE has adopted Property Tax Rules 301 through 326 (Title 18, Public Revenue, California Code of Regulations) regarding assessment appeals.

A review of the appeals function involves both the activities of the assessor's office and the activities of the county assessment appeals board as they relate to assessment appeals. The two agencies must have a working relationship in order to make the entire appeals process effective and efficient, particularly in the case of scheduling and document processing. However, at the same time, they must maintain the statutory separation of authority and responsibility of both agencies.

The assessor receives copies of *Applications for Changed Assessment* and their supporting documentation from the clerk of the board soon after the applications are received. This procedure allows the assessor to effectively manage his assessment appeals workload. Most appeals are resolved either by stipulation or withdrawal before they are scheduled for hearing. The assessment appeals workload and resolution methods are shown in the charts below.

Assessment Appeals Data

Roll Year	Carry-Overs (Prior Years' Unresolved Appeals)	New Filings (for Current Year)	Total Appeals Pending Resolution
95/96	6,203	10,933	17,136
96/97	7,610	15,893	23,503
97/98	9,216	7,221	16,437
98/99	6,211	4,204	10,415
99/00	4,929	1,900	6,829

Roll Year	Appeals Resolved	Method of Resolution			
		AAB Cases Heard ⁶	Cases Denied for Lack of Appearance	Stipulations	Withdrawn
95/96	9,526	278	287	6,714	2,247
96/97	14,287	339	390	9,745	3,813
97/98	10,226	269	984	4,661	4,312
98/99	5,486	164	679	1,566	3,077

⁶ Total of all appeals cases heard during the year indicated, regardless of outcome. Data with respect to the total number of assessments reduced at those hearings were unavailable.

We attended several assessment appeals board hearings as part of our review. We found that the assessor competently administers his assessment appeals program.

Low-Value Property Exemption

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

On January 4, 1994, the board of supervisors passed an “Exemption of Low Value Properties From Assessment” Resolution. This ordinance exempts “all boats, possessory interests in boat berths, aircraft tie-downs, mobile home accessories on licensed mobile homes, and business personal property accounts with a full value of \$2,000 or less” from property taxation.

We found that the assessor correctly applies the low-value property exemption to all property types except certain possessory interests. Please refer to the *Taxable Possessory Interests* topic on page 24.

Disaster Relief

The Revenue and Taxation Code authorizes tax relief to owners of property damaged or destroyed by a calamity or a disaster. Section 170 permits the county board of supervisors to adopt an ordinance allowing property tax relief on qualifying damaged property. The ordinance may limit relief to property located in an area proclaimed by the Governor to be in a state of disaster, or the board of supervisors may adopt an ordinance that includes any misfortune or calamity. In addition, manufactured homes, although classified as personal property, are granted disaster relief by sections 172, 172.1, and 5825(c). These provisions include both manufactured homes subject to vehicle license fees and those subject to local property taxation.

The board of supervisors adopted a disaster relief ordinance in 1978. This ordinance was based on sections 155.13 and 155.14. Subsequent to 1978, the board of supervisors adopted a new ordinance based on section 170 in 1996. That ordinance was revised in 1999 to reflect the change in lien date.

In our 1990 assessment practices survey, we suggested the assessor expand his disaster relief discovery program by requesting fire reports from all fire control agencies. At that time, only four incorporated cities and the county fire authority supplied the assessor with fire reports.

The assessor concurred with our suggestion and took steps to contact all fire control agencies. As of our 1996 assessment practices survey, the assessor was receiving fire reports from 20 different agencies. However, during our research for this survey, we found that only the city of Fremont currently supplies fire reports.

We again suggest that the assessor again request fire reports on a regular basis from *all* fire control agencies in the county to aid in the discovery of misfortunes or calamities.

RECOMMENDATION 2: Allocate disaster relief values in proportion to the existing base year land and improvement values.

When the assessor's staff processed some residential disaster relief applications, they first reallocated the assessed total land and improvement value to a 30/70 ratio. Appraisers used this new allocation, instead of the existing roll values, to determine the amount of reduction attributable to the disaster relief.

This practice is contrary to the assessment method prescribed in section 170(b). The assessor's disaster relief methodology may result in a taxpayer receiving a larger or smaller reduction in value than warranted.

We recommend the assessor use existing assessed land and improvement value allocations when processing disaster relief applications.

State-County Property Tax Administration Loan Program

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

If an eligible county elects to participate, the county and the State Department of Finance (DOF) enter into a written contract described in section 95.31. A PTAP loan is considered repaid if the county satisfies performance criteria set forth in the contract. As a provision of the contract, a county must agree to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing levels for the 1994-95 fiscal year. This requirement prevents a county from using PTAP funds to supplant the assessor's existing funding.

Although performance in the BOE's survey program is one of the contractual performance criteria specified in section 95.31, the BOE has no direct role in determining whether a county has met its contractual performance measures for loan repayment. In most counties, as a provision of the contract, verification of performance is provided to the DOF by the county auditor-controller. In the paragraphs below, we briefly describe Alameda County's participation in the State-County Property Tax Administration Loan Program.

Alameda County participated in the PTAP during years 1995-96, 1996-97, 1997-98, and 1998-99. During calendar year 1999, the county borrowed \$2,152,429. The county's required base funding and staffing levels for the assessor's office are \$8,646,899 and 176 positions, respectively. The Alameda County Auditor-Controller certified to the DOF that the assessor has met the performance requirements for loan repayment.

The assessor has used PTAP funds to reduce backlogs of changes in ownership, new construction, mandatory audits, non-mandatory audits, escape assessments, assessment appeals, and decline-in-value reductions through increased staffing. Funds have also been used to purchase

new information technology hardware and software, and related staff training, all designed to increase the long-term productivity of the assessor's office.

ASSESSMENT OF REAL PROPERTY

The assessor's real property assessment program includes (1) revaluation of properties that have changed ownership, (2) valuation of assessable new construction, (3) annual review of properties having market values below their factored base year values, and (4) review of certain properties subject to special assessment provisions.

Change in Ownership

One of the assessor's duties is to identify and value real property that has changed ownership. Section 60 defines a change in ownership as the transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee interest.

Sections 62 through 69.5 exclude certain transfers from the definition of change in ownership. Exclusions include, but are not limited to, interspousal transfers, qualifying transfers between parents and children, and property acquired as a replacement for property taken by eminent domain.

Most often, the assessor learns of a change in ownership when a deed is recorded at the county recorder's office. The assessor's staff reviews each recorded deed to discover changes in ownership that trigger new base year values. For the 1999-2000 assessment year, the assessor's staff reviewed over 460,000 recorded documents. About 70,000 of those documents were selected for copying and detailed analysis. Of these, the assessor's staff determined about 35,000 documents represented reappraisable changes in ownership.

In addition to the recorded deeds, the county recorder transmits the Preliminary Change in Ownership Reports (PCOR's) filed with the recorded deeds to the assessor. Section 480 requires transferees of locally assessed real property to file a PCOR or Change in Ownership Statement (COS) with the county recorder or assessor. That same section also provides for a penalty for failure to file a COS after a written request by the assessor.

We reviewed a number of appraisal records of properties that had changed ownership. We found good documentation and evidence of thorough analyses of transfers, particularly when the assessor considered those transfers to represent nonmarket transactions. All other aspects of the assessor's change in ownership program we investigated are in compliance with appropriate statutes and regulations.

Legal Entity Ownership Program

Section 64(c) provides that a change in control of any legal entity is a change in ownership of all real property owned by that legal entity, as of the date of the change in control. In that situation, the real property owned by the legal entity is subject to reappraisal. The Legal Entity Ownership

Program (LEOP) of the BOE's Policy, Planning, and Standards Division assists assessors in the discovery of legal entities that have experienced changes in control.

Each reported change in control is investigated and verified by the LEOP staff. The LEOP unit transmits a list to each county indicating the date of each change in control and the affected parcels within that county. Since our 1996 assessment practices survey, the LEOP unit notified the assessor's office of 73 legal entity changes in control that affected 307 real property parcels in Alameda County.

We reviewed a number of appraisal records of properties listed in recent LEOP reports. The assessor had reappraised all parcels shortly after notification by the LEOP unit. Appraisal records were properly documented for the reported changes in control.

New Construction

Section 71 requires the assessor to reappraise newly constructed real property upon the date of completion, or on each lien date while construction is in progress. Like most counties, the assessor discovers most new construction activity from the building permits issued by various government agencies. Other discovery methods include reviewing business property statements, aerial photographs, news reports, and conducting field inspections.

Alameda County has 15 building permit-issuing agencies that include the County of Alameda and 14 incorporated cities. These agencies issued a total of 10,782 building permits for tax year 1998-99. In addition, there are four agencies in Alameda County that issue permits for water wells.

RECOMMENDATION 3: Obtain all building permits from all permit-issuing agencies.

We discovered that at least one agency does not send electrical, plumbing, and mechanical permits to the assessor. In addition, two water well permit-issuing agencies do not send well permits to the assessor. These types of permits may also signal that other related construction activity is occurring or may soon begin. To ensure that all qualifying new construction is assessed, the assessor must receive a copy of every approved building permit.

We recommend the assessor obtain copies of all building permits from all permit-issuing agencies in Alameda County.

RECOMMENDATION 4: Record all building permit activity on appraisal records.

Many building permits culled during the initial screening process are never noted on the property records. Separate permits are often issued for different phases of a single construction project. In and of themselves, they may appear inconsequential. However, when considered together, they may indicate assessable new construction.

Recording all permits would aid in the timely discovery of assessable new construction indicated by an accumulation of permits to a particular property. In addition, this information is very useful

in evaluating the current status of construction in progress, condition of the structure, level of deferred maintenance in older structures, and the proper classification of items commonly misreported by taxpayers on business property statements.

We recommend the assessor record all building permit activity on appraisal records.

RECOMMENDATION 5: Assess all construction in progress at market value on each lien date.

Section 71 provides that:

New construction in progress on the lien date shall be appraised at its full value on such date and each lien date thereafter until the date of completion, at which time the entire portion of property which is newly constructed shall be reappraised at its full value.

During the course of our new construction research, we discovered that the assessor failed to consistently assess the value of new construction in progress on the lien date.

We found several parcels where the assessor enrolled construction in progress values on the lien date, but failed to reappraise that construction in progress on the subsequent lien dates prior to completion. In another case, even though a property owner had reported completion of a foundation, the assessor failed to enroll a construction in progress value on the lien date in question.

The assessor's failure to consistently assess construction in progress on the lien date does not conform to statutory requirements. Therefore, we recommend the assessor assess all construction in progress on each lien date.

Supplemental Assessments

Sections 75, et seq., require the assessor to appraise property at its full cash value on the date property changes ownership or upon the completion of new construction and to issue a supplemental assessment. The increase or decrease in assessed value is reflected in a prorated assessment (the supplemental roll) that covers the portion of the fiscal year remaining after the date of change in ownership or completion of new construction. For changes in ownership or completed new construction occurring between the lien date and May 31, two supplemental assessments are issued. The first covers the portion of the current fiscal year remaining after the assessable event; the second covers the ensuing fiscal year in its entirety.

We found that the assessor's supplemental assessment program meets the requirements of the Revenue and Taxation Code.

Decline in Value

Section 51 requires the assessor to value taxable real property at the lesser of its factored base year value, or the current market value, as defined in section 110. Whenever a property's current market value declines below its factored base year value, for any reason, that lower value must be enrolled as the taxable value for the years of the decline. Any value enrolled as a decline in value requires annual review until the property's current market value exceeds the factored base year value. The factored base year value is then restored as the taxable value.

Although not required by law to reappraise every property annually, most assessors make a concerted effort to monitor market trends and individual property situations in order to recognize value declines. Until recently, overall property values in California had been declining. As a result, most assessors' offices were overwhelmed with appeals from taxpayers that believed their properties had experienced a decline in value.

The assessor developed a fully automated decline-in-value review program in 1997. This program identifies decline in value properties for annual review, permits appraiser-determined values to be directly entered into the computer system, and processes those changes directly to the assessment roll after a supervisor's review.

Since assessment appeals peaked at 16,000 in 1996, the assessor's review program helped reduce the number of decline-in-value appeals filed each year. The number of appeals filed for 1999 is approximately 2,000. Approximately 52,000 properties identified as having a decline-in-value assessment remain on the roll for the 1998-99 year.

We found that the assessor complies with section 51 by annually reviewing and adjusting property values to reflect current market value.

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 section 11. Section 11(a) provides that land, and the improvements thereon, located outside an agency's boundaries, are taxable if the property was subject to taxation at the time of acquisition. Improvements that were constructed to replace improvements that were taxable when acquired are also taxable. These lands and taxable improvements are commonly referred to as "Section 11" properties.

Various agencies of federal, state, county, and city governments, as well as school, water, sewage, utility, and fire districts, own a significant number of parcels in Alameda County. In addition, local public employee retirement systems may own taxable real estate investments that are located outside the agencies' jurisdiction.

The California Supreme Court held that the limitations of article XIII A of the California Constitution apply to Section 11 properties. *City and County of San Francisco v. County of San*

Mateo et al. (1995) 10 Cal. 4th 554. Prior to this decision, these lands were assessed at the lower of either their fair market value or the 1967 taxable value of the land multiplied by the factor described in section 11, as published annually by the BOE. The Court's ruling means that such property must be assessed at the lowest of (1) the current fair market value, (2) the 1967 taxable value of land multiplied by the factor described in section 11, or (3) the factored base year value.

The assessor identified and assessed 328 Section 11 properties. The total assessed value of these parcels exceeded \$70,000,000. All Section 11 parcels are identified by their base year of valuation, appended by a "G."

In our 1996 assessment practices survey, we noted that ten Section 11 properties escaped assessment and suggested that the assessor ensure proper classification of such properties. The assessor subsequently reviewed our suggestion and made roll corrections. He also revised his procedures to include a review of tax rate area codes of government-owned properties. In our current survey we detected no Section 11 properties escaping assessment.

We found that taxable government-owned properties are being properly assessed.

California Land Conservation Act Property

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

Alameda County has 1,089 parcels, encompassing approximately 142,000 acres, encumbered by CLCA contracts, a decrease of approximately 13,000 encumbered acres since our 1996 assessment practices survey. The decrease in acreage is the result of expired contracts. Acreage in non-renewal status has also decreased to approximately 5,100 acres.

The assessor uses an automated CLCA valuation program that accurately calculates the restricted land value annually, checks section 423(d) comparisons for land only, and calculates property values for non-renewed contracts. The BOE-prescribed yield rates are updated annually. The land rents were last updated in 1994. The last CLCA survey for rents and compatible uses also occurred in 1994.

Vine questionnaires are mailed annually to all known owners of vineyard properties. However, at the time of our survey, there was a backlog of unprocessed vine and vineyard improvement questionnaires, with some questionnaires remaining unprocessed since 1995.

RECOMMENDATION 6: Assess all vine and vineyard improvements and initiate roll corrections for escape assessments.

We reviewed all vineyard appraisal records. Most were incomplete or not up-to-date. Some records reflected assessments for drip irrigation and trellises, but none for vines. Some had no vine assessments since 1987-88. In other cases, vines had escaped assessment since 1991 when they became taxable. Other escapes were from various tax years. Most had unprocessed questionnaires on file, and none had roll corrections for the years of escape.

We recommend the assessor review all vine and vineyard appraisal records and process roll corrections for escape assessments.

RECOMMENDATION 7: Ensure that restricted living improvement values are not improperly subject to the annual CCPI adjustment.

During preparation for the 1998 and 1999 assessment rolls, the assessor failed to revalue some restricted vines and other living improvements. This oversight resulted in the automatic adjustment of the prior year's CLCA restricted value by the CCPI inflation factor. The CCPI inflation factor adjustment is appropriate only when the enrolled value is the factored base year value. It is not appropriate when the enrolled value is the CLCA restricted value.

We recommend the assessor ensure that CLCA restricted values do not improperly receive the annual CCPI adjustment.

RECOMMENDATION 8: Establish base year values for CLCA property.

We found that the assessor does not regularly establish base year values for vines when they become taxable. In some cases, the assessor uses the CLCA vine value as the base year value. Without setting correct base year values, the assessor cannot correctly determine a CLCA property's factored base year value.

Without correct base year values, the assessor cannot make the comparison required by section 423(d). If the CLCA restricted value is higher than current market value or the factored base year value, section 423(d) requires the assessor to enroll the lowest of those values.

This inaction could also result in incorrect non-renewal appraisals, which use base year values in the calculation. Non-renewal calculations use those values to determine the assessed value for each year remaining until the termination of the contract.

We recommend the assessor set proper base year values for CLCA property.

RECOMMENDATION 9: Uniformly assess homesites on CLCA property.

We found that homesites on CLCA property are not being assessed consistently. For example, we found inconsistencies in the types of dwellings included in homesite assessments. We also found

inconsistencies regarding the assessment of a second dwelling on a homesite and the homesite treatment of manufactured homes. We recommend that homesites on CLCA property be uniformly assessed. We suggest the assessor establish written policies and procedures as a means of encouraging and ensuring uniform assessment.

RECOMMENDATION 10: Send annual CLCA questionnaires to property owners.

We found that the assessor's most recent land rent and compatible use survey (questionnaire) was completed in 1994. Accurate assessment of lands under CLCA contracts depends on an accurate estimate of land rents. Using older land rents—which may be either too high or too low when compared to current market conditions—can result in overassessments or underassessments.

We also found that none of the 1,089 restricted parcels included any compatible use income from hunting rights. When computing the CLCA-restricted value, the assessor should capitalize income from all compatible uses, such as hunting rights, mineral rights, etc. If the assessor fails to include compatible use income in the appraisal of a CLCA property, that property is underassessed. Without sending an annual questionnaire to owners of CLCA property, the assessor may fail to discover valuable compatible uses of CLCA lands.

To aid in the discovery of current rental and compatible use income, we recommend the assessor send annual questionnaires to the owners of CLCA property.

RECOMMENDATION 11: Use available BOE forms to aid in the discovery of taxable property on agricultural land.

The assessor does not use forms BOE-571-A or BOE-571-F, *Agricultural Property Statement*. Like the annual business property statement, using these forms will help the business property division assess taxable personal property and the real property division to discover manufactured homes, vineyard or orchard plantings, and other agricultural related improvements.

We recommend the assessor use the available BOE forms to aid in the discovery of taxable property on agricultural land.

Historical Property

The Mills Act provides a specific procedure for the assessment of certain historic properties. Its purpose is to encourage the renovation and maintenance of historic properties throughout California by providing a property tax incentive for their owners. Government Code section 50280 provides that an owner of a qualified historical property may enter into a contract with local government to restrict the use of the property for historical purposes in return for property tax benefits, by requiring the assessor to use a specific valuation methodology.

Historical properties are reassessed annually at the lowest of their factored base year value, current market value, or restricted value. Further, when valuing enforceably restricted historic

properties, section 439.2 prohibits the assessor from considering comparable sales data and requires that the restricted value be determined using the income approach.

In the income method, a fair or market rent, less “ordinary and necessary expenses,” is capitalized into a value by a rate that is the sum of a BOE-issued interest component, a risk component, a component for property taxes, and a component for amortization of the improvements. Once capitalized, the appraiser compares the resulting restricted value indicator with the current market value and the factored base year value.

The county has one parcel assessed as an historical property. Since the 1994 roll year, the assessor has enrolled the factored base year value as the lowest of the three values considered. The appraisal file contains a copy of the contract with the local government, and it also contains both the city and county ordinances establishing an historical preservation district and the historical preservation zone.

The historic property in Alameda County is assessed correctly.

Water Company Property

Water company properties assessed on the local roll may be either municipal systems on taxable government-owned land,⁷ private water companies regulated or unregulated by the California Public Utilities Commission (CPUC), or mutual water associations. We found no mutual water associations in Alameda County.

RECOMMENDATION 12: Review annual county and State water supply source reports to discover assessable water company properties.

To determine whether or not the assessor had properly assessed the various types of water company and water-related properties within Alameda County, we obtained reports listing all water supply sources. These water supply sources are inspected annually by the county’s Department of Environmental Health, the State Department of Health Services’ Drinking Water Field Operations branch, and the CPUC. Those properties reported as water supply sources include mobile home parks, campgrounds, lodges, country clubs, apartments, private water companies, and others that may own water company property.

The assessor does not receive the annual report from the State Department of Health Services. We requested that report and examined it. We found that it contains 32 water supply source properties in Alameda County. The assessor should contact these property owners and investigate the status of these water sources.

We recommend the assessor obtain and review applicable reports to determine whether water company properties have escaped assessment. Property not currently assessed should be enrolled, and escape assessments levied as appropriate.

⁷ Taxable pursuant to article XIII, section 11 of the California Constitution

Municipal Water Systems

The California Constitution exempts certain property owned by local governments from taxation.⁸ That exemption includes property owned by municipal water departments, provided those properties are located within the municipality's boundaries. The Constitution also provides that municipal water system property located outside the municipality's boundaries is taxable, if it was taxable at the time the municipality acquired it.⁹

We found parcels owned by municipal water systems located within the city limits or district boundaries to be correctly exempted from taxation. The parcels owned by municipal water systems and located outside of their boundaries were correctly assessed.

Private Water Companies

Private water companies, both regulated and unregulated, are privately owned utilities in business to earn a profit from the sale of water. Regulated water companies are required to submit annual financial reports to the CPUC. The CPUC regulates the rates charged by private water companies, limiting those companies' profits to fixed returns based on the companies' financial investments. Therefore, the market value of private water company property is tied to regulated rates. When assessing these properties, the assessor should compare market value to the factored base year value, enrolling the lower of the two values.

Water company properties we investigated in Alameda County are assessed correctly.

Taxable Possessory Interests

Section 107 and Property Tax Rule 20(a) define a taxable possessory interest as an interest in real property which exists as a result of possession, exclusive use, or a right to possession or exclusive use of land and/or improvements unaccompanied by ownership of a fee simple or life estate in nontaxable, publicly owned real property.

The assessor's possessory interest section maintains approximately 4,000 possessory interest accounts on the unsecured roll. The Port of Oakland contains the largest number of possessory interests, both in the number of accounts and value on the roll. Assesseees on Port of Oakland property include the Oakland International Airport, a portion of the Oakland Army Base (deactivated), numerous boat berths, and containerized freight facilities on the waterfront.

Annual letters are sent to government agencies requesting tenant lists and the lease terms on their properties. Other discovery methods include reviewing newspapers, business property statements, reports from government agencies, interviewing local residents, and appraisal staff inquiry.

⁸ Article XIII, sections 3(b) and 11.

⁹ Ibid.

We reviewed a number of possessory interest accounts. Although the assessor processes most possessory interests correctly, we noted one problem area.

RECOMMENDATION 13: Assess all taxable possessory interests unless they qualify for the low-value property exemption.

The current low-value resolution exempts only: “[A]ll boats, possessory interests in boat berths, aircraft tie downs, mobile home accessories on licensed mobile homes, and business personal property accounts having a full value of \$2,000 or less.”

Since the current low-value exemption resolution allows for the exemption of only possessory interest items such as boat berths and aircraft tie downs, the assessor must value and enroll other low-value possessory interests. However, we found several instances of other low-value possessory interests that were not being assessed. Since this practice does not conform to the current low-value property exemption, we recommend the assessor enroll these low-value possessory interests and issue escape assessments as necessary.

Tenant Improvements

Commercial, industrial, and other income producing properties require constant monitoring by assessors; first-time tenants and changes in tenants often result in assessable new construction in the form of new tenant improvements. Tenant improvements may be properly classified as either structures or fixtures.

The assessor’s office policy allocates responsibility for the assessment of tenant improvements classified as structures to the real property division. Tenant improvements classified as fixtures are assessed by the business property division.

When new construction by a tenant adds value to a property, the assessor must review those changes and reflect them in a property’s assessed value. Attempts to discover this form of new construction include identifying tenant improvement construction permits, sending new construction questionnaires to tenants, examining rent rolls to look for tenant changes and rent changes, and coordination between the business property and real property divisions.

The business property statement, an annual filing requirement of many business owners, is a useful source for discovering tenant improvements.¹⁰ Approximately 23,000 business property statements are sent annually to approximately 38,000 active business accounts. A portion of this statement (Schedule B) is reserved for reporting costs expended by tenants for improvements to their leased premises. If the reported amount expended exceeds \$50,000 on schedule B, columns 1, 3, and/or 4, it is the business property division’s practice to “check” box 2 on the front of the business property statement. This check indicates that a copy of Schedule B is to be forwarded to the real property division for review.

¹⁰ Alameda County form 571L, BOE-571L (S1F) REV. 3(9/98).

RECOMMENDATION 14: Ensure that staff appraisers are aware of and follow business property statement processing policies and procedures.

We found several statements with more than \$50,000 reported on schedule B, columns 1, 3, and/or 4, but box 2 had not been checked. Consequently these property statements were most likely not forwarded to the real property division.

We then compared business property statements that did have box 2 checked with the corresponding real property appraisal record. We found no evidence that a property statement had been referred. There was no copy of the statement and no notation on the property record.

We recommend the assessor ensure that the appraisal staff in both the real property and business property divisions are aware of and follow the property statement processing procedures.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The county assessor's program for assessing personal property and fixtures includes the following elements: (1) processing annual business property statements, (2) annual valuation of personal property and fixtures reported on business property statements, (3) auditing business property statements to ensure proper reporting by taxpayers, (4) annual valuation of other taxable personal property, including vessels, aircraft, and manufactured homes, and (5) the assessor's processing of annual racehorse returns,

The assessor's business property staff valued approximately \$10.6 billion of secured and unsecured personal property and fixtures for the 1999-2000 local assessment roll. The business property staff processes about 54,000 property statements, 1,100 aircraft reports, and 12,900 vessel statements.

Business Property Statement Processing

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

RECOMMENDATION 15: Screen property statements to ensure they have the proper signatures.

Property Tax Rule 172 provides that property statements must be signed by the assessee, a partner or duly appointed fiduciary, or authorized agent. The assessor may reject a property statement that is not signed in accordance with the requirements of Rule 172.

In our review of business property statements, we found several statements signed by an apparent assessee's agent (or other unauthorized preparer) without the required written authorization on file. Written authorization calls attention to the fact that corporate assessees are liable for any consequences of reporting errors by an employee or agent. It also assures that the assessor may rely upon the statement.

We recommend the assessor screen business property statements for authorized signatures. Written authorization should be on file for those who sign business property statements unless the signer is an attorney, a certified public accountant, a public accountant, an enrolled agent, or a duly appointed fiduciary, as required by Property Tax Rule 172.

RECOMMENDATION 16: Properly classify and assess apartment personal property.

Alameda County has over 6,000 apartment properties. Only 205 such properties are sent the annual *Apartment House Property Statement* form (571-R).

If an apartment complex buyer does not report separate personal property values on the PCOR, the assessor includes the value of any personal property in the real property assessment when assessing an apartment complex of less than 100 units. This practice overstates the real property improvement value.

Overstating improvement values results in corresponding overstatements of supplemental assessments upon changes in ownership, since supplemental assessments apply only to land and improvements, not to personal property. Furthermore, personal property is not subject to the annual CCPI adjustment applicable to land and improvements.

We recommend the assessor properly classify and assess apartment personal property separately from land and improvements. To implement this recommendation, we suggest the business property division send apartment house property statements to all owners of apartment complexes.

Business Property Valuation

Prior to the lien date, the assessor sends out property statements to business property owners. Using information from the completed statements, the assessor enrolls the business personal property. When a taxpayer does not respond to a statement, the assessor levies an arbitrary assessment on the business property of that taxpayer. After three consecutive years of nonresponse, the assessor's staff performs an on-site inspection to estimate the values and to determine whether or not an audit is necessary. In addition, this inspection provides an opportunity to inform the taxpayer of business property statement filing requirements.

Assessors generally use valuation factors that are produced by combining price index factors with percent good factors for machinery and equipment. The BOE has developed annual equipment index factors and percent good factors to assist assessors. These are published in BOE's Assessors' Handbook Section 581, *Equipment Index Factors* (AH 581).

In our previous survey, we recommended the assessor use price index factors applicable to the category of equipment being appraised. In our current survey, we found that the assessor now uses these factors properly, with one exception.

RECOMMENDATION 17: Discontinue the use of arbitrary minimum valuation factors.

The assessor currently establishes arbitrary minimum valuation factors for commercial, industrial, agricultural, and construction equipment.

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 handbook 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 arbitrary minimum valuation factors is not an acceptable appraisal practice.

We recommend that the assessor discontinue using arbitrary minimum valuation factors.

Audit Program

At the time of our survey, section 469 required the assessor to audit the books and records of businesses at least once every four years, when locally assessable trade fixtures and tangible personal property have a full cash value of \$300,000 or more for four consecutive years. Recent statutory changes have raised that threshold to \$400,000.

The assessor has a workload of approximately 1,650 mandatory audit accounts. In 1998-99, the workload included 634 audits, of which 36 were held over from previous years. The assessor has an effective mandatory audit-tracking program and obtains waivers of the statute of limitations, as needed.

Additionally, the assessor's staff has performed some non-mandatory audits. Performing "non-mandatory" audits is an important means of improving taxpayer reporting. In addition, non-mandatory audits promote the investigation and resolution of special problems uncovered during the processing of property statements. Non-mandatory audit accounts can be selected from a pool of accounts that have arbitrary assessments, taxpayers' complaints, and a pool of problematic property statements.

We reviewed several mandatory audit accounts and detected no major errors. The audit working papers were well maintained, detailed, and consistent with generally accepted auditing practices.

RECOMMENDATION 18: Complete all mandatory audits required by section 469.

There were 36 uncompleted audits held over from previous years. The mandatory audit program is one of the main functions of the business property division. It verifies the reporting on the largest business property accounts and prevents any potentially large errors. However, the further removed the audit is from the year being audited, the more difficult it is to obtain necessary audit information. We repeat our recommendation that the assessor complete mandatory audits in a timely manner.

Aircraft

Certificated Aircraft

The assessor has one auditor-appraiser charged with processing property statements and reports from 16 scheduled airlines and two air taxi services. The assessor's certificated aircraft appraisal

is based on the allocated formula provided in sections 1150 through 1156. The ratio derived from the formula is applied to the aircraft values set by the aircraft subcommittee.

Our review of four airline accounts uncovered no significant errors and found the assessor employs acceptable assessment practices.

General Aircraft

On January 8, 1997, the BOE approved the *Aircraft Bluebook Price Digest* as the primary guide for valuing general aircraft. As stated in Letter To Assessors (LTA) No. 97/03, the BOE further directed the assessor to reduce the listed retail values by 10 percent, to provide reasonable estimates of fair market values for aircraft in truly average condition on the lien date. In any case, appropriate adjustments to the book value must be made in order to estimate a market value in the hands of the user.

The assessor uses two appraisal methodologies to value general aircraft. Most aircraft are valued using the *Aircraft Bluebook Price Digest*, adjusted for engine hours and overall condition, as well as for variances in aircraft navigational equipment and avionics. When sales data are available—and compatible with indicated values from the *Aircraft Bluebook*—aircraft are also appraised using that data. This procedure was implemented in response to our previous survey recommendations to make annual engine hour adjustments when appraising private aircraft.

The assessor appraises approximately 1,100 general aircraft. His staff tracks aircraft through airport managers' hangar reports, correspondence from other county's aircraft appraisal units, and reports provided by the BOE. Upon the discovery of a possible escaped aircraft, clerical support staff set up a new account with a zero value. The auditor-appraiser's responsibility is to review the account and make a determination as to the aircraft's situs, ownership, and value.

RECOMMENDATION 19: Review and update zero-value aircraft accounts.

The assessor's office sets up a zero-value account after receiving information from various sources, including BOE reports, airport managers' reports, and other counties' referrals. There were 21 zero-value aircraft accounts without any evidence that they had been reviewed. The auditor-appraiser in charge of aircraft should review all zero-value accounts annually to update any new accounts and change the zero value to market value. We recommend the assessor implement a zero-value aircraft review procedure to prevent escape assessments.

RECOMMENDATION 20: Verify an aircraft's condition before granting a reduction in assessment.

The assessor does not perform any aircraft inspections. We recommend the assessor implement a verification or aircraft inspection program before granting a reduction in assessment. By requiring verification, the assessor can obtain important information regarding condition, excess engine hours, and other critical facts necessary for an aircraft assessment.

Vessels

The assessor's business property division assessed more than 12,850 vessels on the 1999-2000 assessment roll, with a total assessed value of \$221 million. The primary discovery sources are Department of Motor Vehicle (DMV) reports, marina lists, referrals from other counties, and an annual field canvas.

Upon discovery of a new vessel, the business property division sends a *Vessel Property Statement* to the owner. Once the staff receives the completed statement, the marine appraiser compares the reported cost with costs from the *BUC* or *ABOS* guides to determine the full cash value.

In the second year, and thereafter, the assessor sends a boat status questionnaire to all vessel owners. An annual *Vessel Property Statement* is sent to owners with vessels having a cost or value of \$100,000 or more.

RECOMMENDATION 21: Apply the 10 percent penalty to all *Vessel Property Statement* late filers and non-filers, pursuant to section 463.

When processing business property statements, the assessor must add a 10 percent late-filing penalty for statements not meeting the filing deadline, or in cases where a statement is not filed, a 10 percent penalty for failure to file. The assessor does not uniformly assess such penalties on vessel assessments. We recommend the assessor apply appropriate penalties to vessel assessments when the owners of those vessels filed a late *Vessel Property Statement*, or failed to file a statement.

RECOMMENDATION 22: Implement the section 275.5 reduced documented vessel exemption for late-filed exemption affidavits.

Alameda County has 50 vessels that qualify for the 4 percent documented vessel assessment provided by section 227. Vessels used in ocean fishing, research, and sport fishing may qualify for a 96 percent exemption, if an affidavit is filed by February 15. Section 275.5 provides that if the affidavit is filed between February 16 and August 1, the exemption is reduced to 80 percent of the exemption that would have been allowed had the affidavit been filed timely.

We found two situations where the affidavit was filed after the February 15 deadline and the assessor still granted the full exemption. As discussed in LTA 80/168, assessments of documented vessels should receive only 80 percent of the 96 percent exemption, or a 76.8 percent exemption, when the vessels' owners fail to file timely affidavits.

We recommend the assessor reduce the documented vessel exemption to 80 percent of the 96 percent exemption when the vessel's owner files an untimely vessel exemption affidavit.

Manufactured Homes

A manufactured home is subject to local property taxes if it was first sold new after July 1, 1980, or the owner has requested a conversion to local property tax. Most conversions from vehicle license fees occur when a manufactured home is sold, because sales and use tax is not charged when a manufactured home is subject to local assessment. If the manufactured home is the owner's primary residence, conversion also allows an owner to qualify for the homeowners' exemption.

Manufactured homes should be classified as personal property. Although the assessor should classify manufactured homes as personal property, their assessment—in most respects—falls within the same standards as real property subject to article XIII A.

For the 1999-2000 roll year, there were 883 manufactured homes on the Alameda County tax roll, with a combined assessed value of over \$32 million. Valuation of these manufactured homes is the responsibility of one appraiser.

The assessor currently appraises manufactured homes using the *Kelley Blue Book Manufactured Housing and Mobilehome Guide (Kelley Blue Book)*. In addition, the appraisal staff updates the manufactured home building records when reviewing properties for changes in ownership.

RECOMMENDATION 23: Annually assess manufactured homes at the lesser of their factored base year value or full cash value.

Section 5813 requires the assessor to value a manufactured home at the lesser of its factored base year value or its full cash value, taking into consideration any reductions in value due to damage, depreciation, or any other factors causing a decline in value. Upon a change of ownership, the assessor establishes a new base year value based on *Kelley Blue Book* data. For subsequent years, the assessor only factors the base year value, using the annual CCPI inflation factor.

The *Kelley Blue Book* indicates that the market values of manufactured homes typically decrease over time. As a result, we recommend the assessor annually assess manufactured homes using the lower of either published market data or factored base year values.

Annual Racehorse Tax Returns

Racehorses domiciled in California have been subject to an annual tax in lieu of ad valorem property tax since 1973. Sections 5701 through 5790 outline the provisions of this tax. Specific procedures and forms are prescribed by Property Tax Rules 1045 and 1046. Property Tax Rule 1045(a)(2) requires the assessor to furnish BOE-prescribed forms to racehorse owners for reporting the in-lieu tax.

The assessor properly maintains a record of persons believed to be responsible for the annual racehorse tax, and to whom the assessor has furnished copies of those forms. Additionally, the assessor correctly retains copies of filed tax returns, as required by Property Tax Rule 1045(a)(2).

APPENDIX

A: County Property Tax Division Survey Group

Alameda County

Chief, County Property Tax Division:

Charles Knudsen

Assessment Practices Survey Section Manager:

Gene Palmer

Principal Property Appraiser

Survey Team Supervisors:

David J. Hendrick

Supervising Property Appraiser

Michael Lebeau

Supervising Property Appraiser

Survey Team Leader:

Carlos Zaragoza

Senior Specialist Property Auditor Appraiser

Survey Team:

Zella Cunningham

Associate Property Appraiser

Wes Hill

Associate Property Appraiser

Rod Miyatake

Associate Property Appraiser

Mark Winters

Associate Property Appraiser

Dale Peterson

Associate Property Auditor Appraiser

Raymond Tsang

Associate Property Auditor Appraiser

James Pardini

Assistant Property Auditor Appraiser

Kim Trotto

Tax Technician II

Denise Owens

Tax Technician II

B: Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing¹¹ 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.)¹²

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, the items will be identified and placed into one five categories after the sample is drawn:

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.

¹¹ 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.

¹² The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$22,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

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.

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 in (5) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

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



ALAMEDA COUNTY
OFFICE OF ASSESSOR
JOHN N. SCOTT, MAI, ASSESSOR
RON THOMSEN, CHIEF DEPUTY ASSESSOR

COUNTY ADMINISTRATION BUILDING

1221 OAK STREET

OAKLAND, CALIFORNIA 94612-4288

January 23, 2001

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

RECEIVED

JAN 26 2001

County Property Tax Division
State Board of Equalization

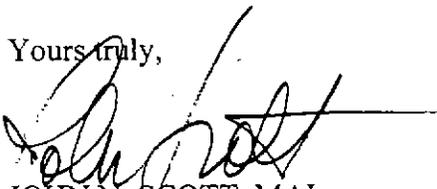
Dear Mr. Knudsen:

Pursuant to section 15645 of the Government Code, please find enclosed our written response to the findings and recommendations in the 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 in 1996. 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 us in our continued effort to accurately and fairly assess property in Alameda County.

Yours truly,


JOHN N. SCOTT, MAI
ASSESSOR

JNS:dmg
Attachments

RESPONSE TO SURVEY

Recommendation 1: *Ensure that appraisers meet the section 671 annual training requirements.*

We concur that all appraisers should meet their section 671 annual training requirements and thank the survey team for recognizing that our training deficits have improved markedly due to the assessor's active response to prior BOE training reports. We will continue our efforts in this area to ensure full compliance with this recommendation.

Recommendation 2: *Allocate disaster relief values in proportion to the existing base year land and improvement values.*

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 any 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 3: *Obtain all building permits from all permit-issuing agencies.*

We agree. We have identified the agency that did not send electrical, plumbing or mechanical permits with their regular monthly permit list and have requested that they begin sending these permits as well. Also, we have identified the agencies in Alameda County that potentially could issue "water well" permits. We have contacted these agencies and requested that copies of all "water well" permits be sent to our department.

Recommendation 4: *Record all building permit activity on appraisal records.*

We agree that having all permits noted on the record would be useful. As time and staffing levels allow, we are complying with this recommendation.

Recommendation 5: *Assess all construction in progress at market value on each lien date.*

We agree that all construction in progress should be assessed at market value on each lien date and believe our staff consistently follows that policy. It is possible that the survey team did not review the Property Permit Records, which detail the appraisers' observations on successive lien dates until completion of construction occurs.

Appraisal judgment must be applied to determine if construction in progress on lien date adds value. In some instances, construction in its beginning stages such as a foundation only may detract from the market value of the property. This is true if it is likely that a potential buyer would choose a different floor plan or the construction does not conform to the highest and best use of the property. Caution should always be used when adding value for construction in progress on lien date that is not clearly measurable.

Recommendation 6: Assess all vines and vineyard improvements and initiate roll corrections for escape assessments.

We concur. We have made this a priority for the agricultural appraiser, and have begun to implement this recommendation.

Recommendation 7: Ensure that restricted living improvement values are not improperly subject to the annual CCPI adjustment.

We concur. Correct valuation procedures for CLCA living improvements are being incorporated into our new computer system. The CLCA module is scheduled for implementation later this year. Until this module is implemented, the agricultural appraiser will manually review restricted living improvement values.

Recommendation 8: Establish base year values for CLCA property.

We concur. As with Recommendation 6, this has been made a priority for the agricultural appraiser, and are implementing this recommendation.

Recommendation 9: Uniformly assess homesites on CLCA property.

We concur. We are drafting a CLCA homesite assessment procedure for inclusion in our procedure manual.

Recommendation 10: Send annual CLCA questionnaires to property owners.

We concur that these properties should be surveyed periodically. We currently survey CLCA properties at the time of a change in ownership. We will periodically survey owners of other CLCA properties to discover and value compatible uses. This function is being included in our pending new computer system, which will automatically generate the questionnaires.

Recommendation 11: Use available BOE forms to aid in the discovery of taxable property on agricultural land.

We agree that the forms specifically designed for agricultural properties are more pertinent to the value of agricultural properties and are helpful in discovering other taxable property. We will begin using the agricultural property statements for the current reporting cycle.

Recommendation 12: Review annual county and State water supply source reports to discover assessable water company properties.

We annually review the CPUC web site to discover any new water companies operating in Alameda County. We have obtained the State Department of Health Services annual report and

are in the process of contacting the property owners of the 32 water supply sources to determine their status.

Recommendation 13: *Assess all taxable possessory interests unless they qualify for the low-value property exemption.*

We concur. We will enroll all possessory interests unless they qualify for the low value exemption.

Recommendation 14: *Ensure that staff appraisers are aware of and follow business property statement processing policies and procedures.*

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

Recommendation 15: *Screen property statements to ensure that they have the proper signatures.*

We concur. We have reminded our staff of the importance and legal requirements of obtaining proper signatures on property statements, and have implemented procedures to ensure compliance with this recommendation.

Recommendation 16: *Properly classify and assess apartment personal property.*

We concur that all apartment personal property should be separately assessed from land and improvement assessments and have implemented a procedure to ensure that personal property is correctly classified.

Recommendation 17: *Discontinue the use of arbitrary minimum valuation factors.*

We respectfully disagree with the description of minimum valuation factors as "arbitrary." Application of the cost approach in mass appraisal of fixtures and personal property is based on the application of price trend and percent good factors, as the SBE report states. However, the percent good factor assumes that all of the value is measured by the income the asset produces over its anticipated service life. In fact, most equipment has scrap or salvage value at the time that it is removed from service. This value is not measured in the percent good calculation and becomes an important component of the total value as the property nears the end of its service life. Appraisal articles suggest that scrap or salvage value ranges from 5 to 15 percent of Replacement Cost New.

The California Assessor's Association recommends a specific minimum percent good for several classes of property, which we have adopted.

Recommendation 18: *Complete all mandatory audits required by section 469.*

We concur. For the 1998-99 fiscal year, the audit-appraisal staff timely completed 95 percent of the audit workload. With the hard work and dedication of our audit staff we are confident that we will timely complete 100 percent of our mandatory audit workload in the future.

Recommendation 19: *Review and update zero-value aircraft accounts.*

We concur. We have implemented a change in our new aircraft account process.

We have scheduled reviews of the zero value accounts in the spring. The final review will be in June, just prior to roll closure. This will ensure that all assessable aircraft are enrolled timely.

Recommendation 20: *Verify an aircraft's condition before granting a reduction in assessment.*

We concur. We have implemented a policy to request supporting documentation to verify an aircraft's condition before granting a reduction in assessment.

Recommendation 21: *Apply the 10 percent penalty to all Vessel Property Statement late filers and non-filers, pursuant to section 463.*

We concur. Our new assessment management system is being programmed to incorporate the penalty automatically and comply with the legal requirements of Property Tax Rules 261 and 252.

Recommendation 22: *Implement the section 275.5 reduced documented vessel exemption for late-filed exemptions.*

We concur. We have reminded our staff that the full vessel exemption is not to be granted unless filed timely.

Recommendation 23: *Annually assess manufactured homes at the lesser of their factored base year value or full cash value.*

An improved assessment management system is under development which will incorporate a manufactured home valuation module allowing for the rapid annual review of all manufactured home values to ensure their assessment at the lower of market value or factored base year value. Until that system is in place, we will annually review manufactured home assessments individually.