

FRESNO COUNTY ASSESSMENT PRACTICES SURVEY

MARCH 2010

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March 11, 2010

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No. 2010/017

TO COUNTY ASSESSORS:

FRESNO COUNTY
ASSESSMENT PRACTICES SURVEY

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

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from March through May 2008. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

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

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

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:ps
Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest derives from state law that annually guarantees California schools a minimum amount of funding; to the extent that property tax revenues fall short of providing this minimum amount of funding, the State must make up the difference from the general fund.

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures (surveys) of every county assessor's office. This report reflects the BOE's findings in its current survey of the Fresno County Assessor-Recorder's Office.¹

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, the Fresno County Board of Supervisors, the 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 Robert C. Werner, Fresno County Assessor-Recorder, elected to file his initial response prior to the publication of our survey; it is included in this report, following the Appendixes.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys* at page 2) 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.

¹ This report covers only the assessment functions of this office.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

In addition, pursuant to Revenue and Taxation Code² section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Fresno County Assessor-Recorder's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contacts with officials in other public agencies in Fresno County who provided information relevant to the property tax assessment program.

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.³

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

² Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

³ All rule references are to sections of the California Code of Regulations, Title 18, Public Revenues.

EXECUTIVE SUMMARY

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

We noted that the Fresno County Assessor has made use of modern computer technology to improve his office functions. These innovations include a document management system, which allows the conversion of paper documents to digital and electronic access and retrieval of these documents. The assessor has also purchased an automated workflow system that allows the office to perform multiple tasks concurrently. These technologies will form the basis of a modern paperless office. Additionally, the assessor's field staff is now fully mobile and has the ability to access needed information without being in the office.

Many of our recommendations concern portions of programs that are currently effective but need additional improvement. In many instances, the assessor is already aware of the need for improvement and is considering changes as time and resources permit.

The assessor is effectively managing many portions of his administrative programs, including budgeting and staffing, appraiser certification, staff property procedures, assessment appeals, assessment roll changes, exemptions, assessment forms, and the racehorse administrative tax program. We noted, however, that the assessor still grants relief to properties damaged by a disaster or calamity by treating them as "negative" new construction and enrolling a negative supplemental assessment based on the amount of the loss.

In the area of real property assessment, the areas of most concern are in the valuation of new construction and taxable government-owned properties. Specifically, the assessor fails to identify and enroll some assessable new construction and incorrectly establishes the base year value of taxable government-owned properties.

In the area of business property assessment, the assessor has effective programs for business property statement processing, business equipment valuation, discovery of leased equipment, and the discovery and valuation of animals. The areas of most concern are the audit program and the assessment of vessels. The assessor does not request a waiver of the statute of limitations when an audit will not be completed in a timely manner and incorrectly applies the low-value property tax exemption to some older vessels.

Despite the problems noted above, we found most properties and property types are assessed correctly. We found no significant assessment problems as defined in Rule 371. Accordingly, pursuant to section 75.60, Fresno County continues to be eligible for recovery of costs associated with administering supplemental assessments. Since Fresno County was not selected for assessment sampling pursuant to Government Code section 15643(b), this report does not include the assessment ratios that are generated for surveys that include assessment sampling.

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

RECOMMENDATION 1: Reassess property damaged by misfortune or calamity in accordance with section 51(a)(2).....11

RECOMMENDATION 2: Apply section 482 penalties for failure to file completed *Change of Ownership Statements* timely.18

RECOMMENDATION 3: Track transfers of property, other than the principle residence, to enforce the \$1 million limit as provided by section 63.1.20

RECOMMENDATION 4: Improve new construction documentation.....23

RECOMMENDATION 5: Determine the base year value of taxable government-owned properties at the lower of current market value or restricted value.....27

RECOMMENDATION 6: Include questions that will aid in the discovery of existing, nonexclusive compatible uses on questionnaires sent to Timberland Production Zone property owners.....28

RECOMMENDATION 7: Enroll the lower of current market value or factored base year value for properties owned by regulated water companies.31

RECOMMENDATION 8: Obtain the articles of incorporation for all mutual water companies.32

RECOMMENDATION 9: Improve the mineral property assessment program by: (1) valuing settling ponds as a separate appraisal unit as required by section 53.5; (2) appraising mineral properties as a unit according to Rule 469(e)(2)(C); and (3) determining fair market value of mineral properties each year as required by Rule 469.....33

RECOMMENDATION 10: Request a waiver of the statute of limitations when an audit will not be completed in a timely manner.37

RECOMMENDATION 11: Improve the audit program by enrolling audit results for each year of a multiple-year audit.38

RECOMMENDATION 12: Grant the historical aircraft exemption only to qualifying aircraft.....44

RECOMMENDATION 13: Properly apply the low-value property tax exemption to vessels.45

OVERVIEW OF FRESNO COUNTY

Fresno County is located in California's San Joaquin Valley which, together with the Sacramento Valley to the north, forms the Great Central Valley. In April 1856, the county was created as a charter county, from the counties of Mariposa, Tulare, and Merced.⁴ The county is one of eight counties that make up the San Joaquin Valley in central California.⁵

Fresno County is one of the richest and most productive agricultural counties in the United States. In 2006, Fresno County growers grossed over \$4.8 billion from the production of more than 350 commercial crops.⁶

Fresno County comprises approximately 6,000 square miles, of which approximately 162 square miles lie within incorporated jurisdictions. There are 15 incorporated municipalities within the county, with the city of Fresno being the largest.⁷ The city of Fresno is also the center of county government.

⁴ www.cagenweb.com/re/fresno/history

⁵ San Joaquin, Stanislaus, Merced, Madera, Fresno, Kings, Tulare, and Kern.

⁶ www.cefresno.ucdavis.edu

⁷ Clovis, Coalinga, Firebaugh, Fowler, Fresno, Huron, Kerman, Kingsburg, Mendota, Orange Cove, Parlier, Reedley, Sanger, San Joaquin, and Selma. *California Cities, Towns & Counties, 1994.*

ADMINISTRATION

This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. Subjects addressed include the assessor's budget, workload and staffing, appraiser certification, staff property procedures, assessment appeals, disaster relief, assessment roll changes, low value property tax exemptions, other exemptions, the racehorse administrative tax, and assessment forms.

Budget, Workload and Staffing

Budget

The county board of supervisors annually funds the assessor's office through the county's general fund. The allotted funds are provided so the assessor can produce a timely assessment roll, administer legally permissible exemptions, develop and maintain a set of current maps delineating property ownership, defend assessments as required before an appellate body, and provide information and service to the public as needed.

As shown in the following table, the assessor's budget has grown almost 24 percent over recent years:

BUDGET YEAR	GROSS BUDGET	ANNUAL INCREASE	PERMANENT STAFF
2007-08	\$11,789,683	13.07%	140
2006-07	\$10,427,164	-1.15%	142
2005-06	\$10,548,264	5.50%	142
2004-05	\$9,998,625	5.87%	140
2003-04	\$9,444,192	---	138

Workload

The assessor produced a local assessment roll for 2007-08 consisting of 306,735 assessment parcels (277,128 on the secured roll and 29,607 on the unsecured roll). This assessment roll had a net taxable value of \$61,784,290,312, which was an increase of 60 percent over the 2003-04 roll total of \$38,556,133,000.

The following table displays property type, number of assessments, and enrolled value information pertinent to the 2007-08 assessment roll as provided by the assessor:

PROPERTY TYPE	ASSESSMENTS	ENROLLED VALUE
<u>Secured Roll</u>		
Residential	233,660	\$40,508,653,880
Commercial	11,626	\$8,521,440,262
Industrial	5,261	\$3,944,532,312
Other	26,581	\$5,764,364,833
Total Secured	277,128	\$58,738,991,287
<u>Unsecured Roll</u>		
	29,607	\$3,045,299,025
Total Assessment Roll	306,735	\$61,784,290,312

The next table illustrates the growth in assessed values during the previous years as reported in the BOE's Annual Reports:

ASSESSMENT ROLL	TOTAL ROLL VALUE	INCREASE	STATEWIDE CHANGE
2007-08	\$61,784,290,000	16.20%	9.6%
2006-07	\$53,170,771,000	14.14%	12.3%
2005-06	\$46,582,184,000	10.43%	11.1%
2004-05	\$42,184,310,000	9.41%	8.3%
2003-04	\$38,556,133,000	---	

Staffing

The assessor has a staff of 140 budgeted full-time positions, including the assessor. The office is divided into the following five divisions: (1) exemptions, (2) mapping, (3) personal property, (4) real property, and (5) property transfers. The majority of the staff is located in the real property and personal property divisions.

Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. There are a total of 63 certified appraisers on staff, of whom 39 hold advanced certificates and 24 have permanent appraiser certificates. We found that the assessor and his staff possess the required certificates. Additionally, we found the 15 auditor-appraisers performing audits meet the requirements referenced in section 670(d). The assessor does not use contract appraisers.

In Fresno County, the Staff Analyst III performs the duties of the training coordinator. His responsibilities as training coordinator include:

- Tracking staff training hours to ensure they have the requisite training each year to maintain their appraisal certification.
- Arranging for staff to attend a variety of training opportunities each year such as courses and seminars presented by the BOE, conferences, and classes presented by other organizations.
- Tracking the progress of newly hired appraisal staff to ensure they complete the BOE's certification course within the statutory one-year timeframe.

We found the assessor's appraiser training and certification program is active and efficiently monitored.

Staff Property Procedures

We reviewed the assessor's internal controls and safeguards as they apply to staff owned properties. This review is done to ensure there are adequate and effective controls in place to ensure potential conflicts of interest are avoided in the assessment of employee-owned property.

One method used by the assessor to discover employee-owned properties or businesses in Fresno County is through the use of the *Statement of Economic Interests* (State Fair Political Practices Commission Form 700). This statement, which is filed by employees each year, provides information regarding employee ownership in any real property, other than a primary residence, as well as ownership interest in any business entity. The assessor also becomes aware of employee-owned property from voluntary disclosure by the employee.

Employees are not allowed to value property they own in Fresno County. Employee-owned property is valued by the appraiser responsible for the geographical area in which the property is located. If an appraiser owns property within his or her assigned geographical area, then the appraiser informs his/her supervisor. The supervisor then reassigns the appraisal to another appraiser.

When an appraisal is completed on an employee-owned property, it is then forwarded to the senior appraiser for review and approval. We reviewed a number of employee-owned property appraisal files and found no problems with their valuation.

Assessment Appeals

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

Fresno County Ordinance No. 585 provides for the creation of the county's assessment appeals board. The appeals board has adopted local rules regarding the duties of the appeals board. Currently, there is one appeals board consisting of three members and two alternate members. The board of supervisors appoints members of the appeals board. The county does not have hearing officers. Pursuant to section 1624.02, all members complete the required training when appointed to the board.

The regular filing period for appeals in Fresno County is July 2nd through November 30th. Fresno County holds hearings once a month. For the past four years, most appeals were timely resolved; however, for the appeals not resolved within two or more years, a timely waiver was obtained.

The following table illustrates the assessment appeals' workload for recent years:

ASSESSMENT ROLL	2006-07	2005-06	2004-05	2003-04
Appeals Workload				
Appeals Filed	284	274	333	438
Appeals Carried Over From Prior Year	15	0	95	44
Total Appeals Workload	299	274	428	482
Resolution:				
Withdrawn	167	238	244	233
Stipulation	44	17	82	72
Appeals Reduced	0	0	50	66
Appeals Upheld	0	2	45	12
Appeals Increased	0	0	0	2
Other Determination	4	2	7	2
Total Resolved	215	259	428	387
To Be Carried Over	84	15	0	95

The majority of appeals heard by the assessment appeals board involved commercial, industrial and rural properties. A high number of appeals' applications were withdrawn mostly due to the assessor's efforts in working with applicants to ensure they are fully informed regarding the value on the roll and the validity of the assessed value.

The Fresno County Clerk of the Board is responsible for providing applications for changed assessment to the public. The application can be obtained at the board of supervisor's office or through its website. No fee is charged to file an appeal.

When the clerk of the board's office receives the application, the information on the application is verified with the assessor's public inquiry database and checked for completeness. The application is logged and a hearing date is set.

The clerk forwards to the assessor a copy of each application. A senior appraiser reviews the application together with the appraiser who valued the property. The appraiser contacts the applicant to discuss the value. If the appraiser believes a reduction in value is in order and an agreement is reached, the assessor will send a stipulation letter to the applicant for signature. Once the signed letter is received, the assessor will forward it to the appeals board for approval. The stipulated value is then enrolled by the assessor.

If no agreement is reached, the hearing continues. A supervising appraiser and a senior appraiser will represent the assessor at the appeals board hearing.

We reviewed several assessment appeals prepared by the assessor's staff and found them well documented and complete. Overall, the assessor's assessment appeals program is well administered.

Disaster Relief

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

To obtain relief under section 170, assesseees must make a written application to the assessor requesting reassessment. In addition, if the assessor is aware of any property that has suffered damage by misfortune or calamity; the assessor must provide the last known assessee with an application for reassessment. Alternatively, the board of supervisors may, by ordinance, grant the assessor the authority to initiate the reassessment if the assessor is aware and determines that within the preceding 12 months taxable property located in the county was damaged or destroyed by misfortune or calamity.

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

The Fresno County Board of Supervisors has not adopted a section 170 disaster relief ordinance. Without a section 170 disaster relief ordinance, the assessor may only grant relief for loss in value caused by a disaster or calamity through section 51(a)(2). Section 51 requires the assessor to value a property at the lesser of its factored base year value or its full cash value as of the January 1st lien date.

In our previous survey, we recommended that the assessor reassess property damaged by misfortune or calamity in accordance with section 51(a)(2). We found that the assessor has not complied with this recommendation. Therefore, it is repeated below.

RECOMMENDATION 1: Reassess property damaged by misfortune or calamity in accordance with section 51(a)(2).

We found the assessor continues to grant relief to owners of properties damaged by a disaster or calamity by treating it as "negative" new construction and enrolling a negative supplemental assessment based on the amount of the loss.

In order to classify damaged property as "new construction," the damaged structure must be severed from the property. Loss of value not associated with the severance of the structure is not classified as "new construction." Consequently, the use of the supplemental tax roll to grant relief is inappropriate.

Without a section 170 disaster relief ordinance, the assessor may only grant relief for loss in value caused by a disaster or calamity through section 51(a) (1) and (2). Section 51 requires the assessor to value a property at the lesser of its factored base year value or its full cash value as of the January 1st lien date.

Assessment Roll Changes

Each year the assessor must complete the local assessment roll and deliver it to the auditor by July 1. Once the roll is delivered to the auditor, any correction that would decrease the amount of unpaid taxes requires the consent of the board of supervisors. All changes to the roll are authorized by specific statutes, and any roll change must be accompanied by the appropriate statutory reference.

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

The following table shows the number of roll changes processed over recent years:

FISCAL YEAR	ROLL CHANGES
2007-08	13,539
2006-07	20,052
2005-06	16,259
2004-05	11,780
2003-04	15,520

In Fresno County, appraisers, auditor-appraisers, property transfer clerks, and mapping staff can initiate roll changes. Appraisers and auditor-appraisers prepare the documentation for roll changes. All roll changes are reviewed by a senior appraiser or a supervising appraiser (and sometimes the assessor) prior to being forwarded for data entry.

Once entered into the computer system, the amount of the change is computed, and the appropriate notices are generated. The assessor mails to taxpayers the *Notice of Proposed Escape Assessment* and monitors the process to ensure that the ten-day notice requirement specified in section 531.8 is met. We reviewed a number of roll changes and found the changes were made within the authorized statutory period and the *Notice of Proposed Escape Assessment* was correctly mailed to the taxpayer, at least ten days before the change is entered on the roll.

We found no problems with the assessor's program for assessment roll changes.

Low-Value Property Tax Exemption

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

Section 155.20(b)(1) provides that a county board of supervisors shall not exempt property with a total base year value or full value of more than \$5,000 (effective January 1, 2010, the maximum amount that can be exempted under a "low value" local ordinance was increased to \$10,000), or more than \$50,000 in the case of certain taxable possessory interests. A board of supervisors must adopt a low-value property tax exemption before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

On December 14, 2004, the board of supervisors adopted Resolution No. 04-666. This resolution exempts from property tax all real property with a base year value, and all personal property with a full cash value, of \$ 3,000 or less. The resolution applies to fiscal year 2005-06 and continues in effect for each succeeding fiscal year until subsequently amended or repealed.

For the 2007-08 assessment roll, there were 1,570 personal property accounts and 2,395 real property assessments that qualified for this tax exemption. For real property subject to the low-value property tax exemption, the base year value is tracked and adjusted each year by the BOE-announced inflation factor to determine when or if the property exceeds the \$3,000 threshold.

We reviewed several low-valued properties and found the assessor's low-value property tax exemption program complies with all statutory requirements.

Exemptions

Church and Religious Exemptions

Article XIII, section 3(f) of the California Constitution authorizes exemption of property used exclusively for religious worship. This constitutional provision, implemented by section 206, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking is also exempt under article XIII,

section 4(d) of the California Constitution, provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1. The Legislature has also implemented the religious exemption in section 207, which exempts property owned by a church and used exclusively for religious worship or for both religious worship and school purposes (excluding property used solely for schools of collegiate grade).

County assessors administer the church and religious exemptions. The church exemption, including the church parking exemption, requires an annual filing of the exemption claim. The religious exemption requires a one-time filing by the claimant, although the assessor annually mails a form to claimants to confirm continuing eligibility for the exemption. Once granted, the religious exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

The assessor processed 235 church exemption claims and 638 religious exemption claims for the 2007-08 assessment roll.

The following table illustrates the number of church and religious exemptions processed, and the amount exempted, in Fresno County for recent years:

ROLL YEAR	CHURCH	EXEMPTED VALUE	RELIGIOUS	EXEMPTED VALUE
2007-08	235	\$105,828,540	638	\$289,929,173
2006-07	152	\$60,815,255	620	\$264,636,526
2005-06	153	\$63,579,948	634	\$264,671,645
2004-05	179	\$60,645,061	616	\$229,950,990
2003-04	193	\$56,986,171	624	\$236,254,063

We found the assessor properly processed church and religious exemption claim filings and no problems exist with the church and religious exemption programs.

Welfare Exemption

Article XIII, section 4(b) of the California Constitution authorizes the Legislature to exempt property owned and used exclusively for religious, hospital or charitable purposes by organizations formed and operated exclusively for those purposes. When the Legislature enacted section 214 to implement this constitutional provision, a fourth purpose (scientific) was added. Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the BOE and county assessors. The BOE is responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing either *Organizational Clearance Certificates* (OCCs) to qualified organizations or *Supplemental Clearance Certificates* (SCCs) to limited partnerships, which has a qualified organization as the managing general partner, that own and operate low-income housing. The

assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC or valid SCC issued by the BOE. The assessor may deny an exemption claim, based on non-qualifying use of the property, notwithstanding that the BOE has issued an OCC or SCC to the claimant.

The following table shows the number of welfare exemptions processed and their corresponding exemption value for recent years:

ROLL YEAR	WELFARE	EXEMPTED VALUE
2007-08	567	\$1,068,254,776
2006-07	853	\$1,352,763,952
2005-06	492	\$1,060,195,974
2004-05	709	\$1,037,456,529
2003-04	654	\$932,833,064

We reviewed a variety of welfare exemption claims, including first-time filings and annual filings. During our review of exemption claims we inspected claims for low-income housing property, including properties owned by a limited partnership holding an SCC. Our review indicated the assessor is properly administering the welfare exemption program.

Homeowners' and Disabled Veterans' Exemptions

The homeowners' exemption is authorized by article XIII, section 3(k) of the California Constitution. This constitutional provision, implemented by section 218, exempts \$7,000 of the full value of a dwelling when occupied by an owner as a principal place of residence.

The disabled veterans' exemption is authorized by article XIII, section 4(a) of the California Constitution. This constitutional provision, implemented by section 205.5, exempts a specified amount of the full value of a dwelling when occupied as a principal place of residence by an owner who is a qualified disabled veteran (or a deceased disabled veteran's unmarried surviving spouse). The amount of exemption is \$100,000; however, for qualifying low-income disabled veterans, the amount is \$150,000. Both of these amounts are adjusted annually by a cost of living index factor.

The homeowners' exemption requires a one-time filing. Once granted, the exemption remains in effect until such time as title to the property changes, the owner does not occupy the dwelling as his or her principal place of residence as of the lien date, or the property is otherwise ineligible. The disabled veteran's exemption at the \$100,000 basis requires a one-time filing; while annual filing is required for those exemptions at the \$150,000 low-income basis to determine continued eligibility.

The assessor processed 113,268 homeowners' exemption claims and 620 disabled veterans' exemption claims for the 2007-08 assessment roll.

The following table illustrates the number of properties and the amount of assessed value exempted under the homeowners' and disabled veterans' exemptions for recent years:

ROLL YEAR	HOMEOWNERS'	EXEMPTED VALUE	DISABLED VETERANS'	EXEMPTED VALUE
2007-08	113,238	\$792,196,309	620	\$56,460,719
2006-07	114,245	\$798,721,761	545	\$68,690,548
2005-06	114,169	\$798,364,885	596	\$50,201,211
2004-05	115,928	\$810,594,043	505	\$41,628,324
2003-04	117,309	\$819,976,224	464	\$38,353,142

Our review of the homeowners' and disabled veterans' exemption records indicated the assessor is properly processing these exemptions.

Racehorse Administrative Tax

Racehorses domiciled in California are subject to an annual tax in-lieu of ad valorem property taxes. Sections 5701 through 5790 outline the provisions of this tax. Specific procedures and forms are prescribed by Rules 1045 through 1047. Rule 1045(c) requires the assessor to furnish BOE-prescribed forms to racehorse owners for reporting the in-lieu tax no later than December 15th every year.

The assessor's records indicate that there are 1,072 racehorses with legal situs in Fresno County. The assessor discovers racehorses through the use of the *Annual Racehorse Tax Return* (form BOE-571-J), telephone book listings, and information from other counties. The assessor annually sends racehorse tax return forms to prior year owners of racehorses. In addition, he sends the appropriate tax form to owners of horse boarding facilities requesting a list of horse owners. The assessor and tax collector exchange information further improving the discovery of taxable racehorses.

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

Examination of the 2007 *Annual Racehorse Tax Returns* delivered to the tax collector and maintained by the assessor indicated no returns exceeded the threshold for mandatory audit. We found that the assessor effectively administers the racehorse tax program.

Assessment Forms

Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation. Generally, the assessor may not change, add to, or

delete the specific wording in a prescribed form. The assessor may, however, rearrange information on a form provided that the assessor submits such form to the BOE for review and approval. Assessors may also use county-developed forms to assist them in their assessment duties; however, such forms may not be used as substitutes for BOE-prescribed forms that are required to be used, and no penalty may be imposed upon a property owner for failure to file a county-developed form or questionnaire.

To enforce the use of prescribed forms, the BOE annually requires assessors to specify, in writing, the number of BOE-prescribed forms they will use in the succeeding assessment year. Assessors are also required to submit to the BOE copies of the final prints of all prescribed forms they intend to use.

The assessor timely provided the BOE with copies of all rearranged forms and final prints. We have no recommendations for this program.

ASSESSMENT OF REAL PROPERTY

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

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

Article XIII A of the California Constitution provides that, absent post-1975 new construction or changes in ownership, the taxable value of real property shall not exceed its 1975 full cash value, except that it can be adjusted annually for inflation by a factor not to exceed two percent.

Change in Ownership

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

Document Processing

The Fresno County Assessor's primary means of discovering properties that have changed ownership is to review deeds and other recorded documents. Since the assessor is also the recorder, the assessor's computer system is connected to the recorder's system, facilitating the receipt, and review of all recorded documents. The recorder's staff requires a *Preliminary Change of Ownership Report* (PCOR) to accompany documents submitted for recordation that purports to transfer the ownership of real property. A \$20 fee is added to the recording fee when a PCOR is not used.

Transfer specialists in the assessor's property transfer division analyze PCORs, deeds, and other documents to determine the percentage of ownership transferred, and if the property is reappraisable. The documents are tracked in the computer system.

The following table shows the number of recorded documents and the number of those resulting in changes in ownership for recent years:

ROLL YEAR	RECORDED DOCUMENTS	RESULTING CHANGES IN OWNERSHIP
2006-07	273,640	23,168
2005-06	307,194	27,831
2004-05	292,898	29,612
2003-04	309,405	26,514
2002-03	238,790	25,434

On average, approximately eight to ten percent of all recorded documents result in a change in ownership. We reviewed several records where a resulting change in ownership had occurred. We found these records complete and well documented. We also found the assessor establishes the correct base year value, complies with the presumption in Rule 2 that the sale price reflects the full cash value of the property, and uses reasonable appraisal techniques. He also correctly values partial interest transfers, applies the annual inflation adjustment, and enrolls supplemental assessments.

When a transfer document is received without a PCOR, the assessor sends form BOE-502-A, *Change of Ownership Statement* (COS), to the transferee. A COS is also sent to the transferee when there is insufficient or incomplete information on the PCOR. Section 482 requires the assessor to assess penalties if the transferee fails to return the COS within 45 days or if the COS is incomplete; however, review of the assessor's records indicate that the assessor is not applying the mandatory section 482 penalties.

RECOMMENDATION 2: Apply section 482 penalties for failure to file completed *Change of Ownership Statements* timely.

We found the assessor fails to assess the mandatory section 482 penalty when a COS is not timely returned within the specified 45 days or when the COS is returned incomplete.

Section 480 provides that transferees shall file a change in ownership statement with the recorder or assessor in the county where the subject property is located. Section 482(a) further provides that if a required party fails to file the completed COS within 45 days after the assessor's written request, the assessor shall assess a penalty of either \$100 or 10 percent of the taxes applicable to the new base year value, whichever is greater, to a maximum of \$2,500 if the failure to file was not willful. The filing of this form is not an option for transferees.

The information contained in a properly completed COS assists the assessor in making an accurate assessment. By not assessing penalties, the assessor is not enforcing section 482 as prescribed.

Legal Entity Ownership Program (LEOP)

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

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

We reviewed a number of entities on the LEOP list that own property in Fresno County and found the assessor has promptly and properly reviewed the assessments of properties owned by these entities and re-appraised the properties when appropriate.

Section 408.1 Transfer Lists

Pursuant to section 408.1(a), the assessor is required to maintain a list, available to the public, showing property transfers that have occurred within the preceding two years. The list must be divided into geographical areas and include the names of the transferor and transferee, if available, the assessor's parcel number, the address of the transferred property, date of transfer, date of recording and recording reference number, and the amount of consideration paid if known by the assessor.

The Fresno County Assessor makes available for public inspection an electronic database which lists real property transfers occurring in the preceding two-year period. The assessor charges ten dollars to view the list, as allowed in section 408.1(d). The assessor's two-year transfer list is in full compliance with the provisions of section 408.1.

Section 63.1 Exclusions

Section 63.1 excludes from the definition of "change in ownership" the purchase or transfer of the principal residence and the first one million dollars of other real property between parents and their children. A limited number of transfers from grandparents to their grandchildren are also excluded.

The following table represents the number of approved section 63.1 claims for recent years:

ROLL YEAR	SECTION 63.1 CLAIMS
2006-07	3,000
2005-06	1,681
2004-05	2,313
2003-04	4,160
2002-03	5,000

We reviewed several section 63.1 claims and found one problem with this program.

RECOMMENDATION 3: Track transfers of property, other than the principle residence, to enforce the \$1 million limit as provided by section 63.1.

The assessor chooses not to report to the BOE approved section 63.1 transfers. He also neglects to monitor the \$1 million limit on transferred property other than the principal residence.

Section 63.1(a)(2) provides that the definition of change in ownership does not include the transfer of the first \$1 million of real property other than the principle residence. In order to enforce this provision, the BOE established a database to track these types of transfers statewide.

While not mandatory, the assessor is encouraged to notify the BOE, on a quarterly basis, of any approved section 63.1 transfer applications. While the assessor may choose not to notify the BOE of these approved section 63.1 applications, in order to enforce the \$1 million limit, the assessor must have some means of tracking these types of transfers within his county to ensure correct treatment.

Failing to track the \$1 million limit may result in properties escaping proper assessment.

Section 69.5 Exclusions

Section 69.5 allows for the transfer of the base year value of a principal residence to a replacement residence of equal or lesser value, provided the property owner meets all of the statutory requirements, including, but not limited to, being at least 55 years of age or older, or severely disabled, filing a claim timely, and the properties are located within the same county. The assessor is also required to report to the BOE, on a quarterly basis, any approved section 69.5 claims.

The following table represents the number of approved section 69.5 claims for recent years:

ROLL YEAR	SECTION 69.5 CLAIMS
2006-07	140
2005-06	160
2004-05	124
2003-04	83
2002-03	61

We found no problems with this particular program.

Direct Enrollment Program

Direct enrollment allows the assessor to directly enroll the assessment of properties that have transferred and met certain criteria with minimal appraisal involvement.

The following table shows the number of directly enrolled assessments for recent years:

ASSESSMENT YEAR	DIRECT ENROLLMENTS
2006	4,097
2005	6,880
2004	7,629
2003	6,142
2002	5,186

Approximately 22 percent of all reappraisable transfers are directly enrolled. To qualify for direct enrollment, the transfer must involve a 100 percent interest transfer of the property, the subject property must be located within Direct Enrollment Neighborhoods (which are homogeneous neighborhoods), deeds must show a full transfer tax based on the sale price, the sale price must be less than \$1 million, and the sale price must exceed the current assessed value.

If a transfer meets the above criteria, the appraiser conducts a desk review and makes a final determination based on the sales price. The transfer is reviewed and approved by a senior or supervising appraiser, direct enrollment annotation labels are entered on the property records, and the assessment is directly enrolled.

We found the assessor's direct enrollment program to be effective and well administrated.

New Construction

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

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

There are several statutory exclusions from what constitutes new construction; sections 70(c), (d), and (e), and sections 73 through 74.7 address these exclusions.

Most new construction activity is discovered from building permits. Currently, the assessor receives building permits from 16 permit-issuing agencies. The agencies include the Fresno County Building Department and the cities of Fresno, Clovis, Coalinga, Firebaugh, Fowler, Huron, Kerman, Kingsburg, Mendota, Orange Cove, Parlier, Reedley, San Joaquin, Sanger and Selma.

Other methods used to discover new construction include review of newspaper articles, field canvassing by appraisers in their assigned areas, during review of new construction, and information reported on form BOE-571-L, *Business Property Statement*.

The following table shows the number of new constructions permits processed by the assessor for recent years:

ROLL YEAR	PERMITS
2006-07	11,832
2005-06	14,106
2004-05	12,551
2003-04	11,493
2002-03	9,083

Building permits are reviewed by assessment clerks to determine if they evidence reappraisable new construction events, or if they indicate non-assessable events, like repair and maintenance. Building permits considered assessable are flagged for further review and forwarded along with the building record to the appraiser responsible for the area where the property is located. When the assessment clerk has a question regarding whether or not a permit should be reviewed, he/she confers with the appraiser responsible for the area in which the property in question is located.

To obtain cost information, the assessor sends new construction questionnaires to owners of property that have been issued building permits. Approximately 50 percent of the questionnaires are completed and returned to the assessor.

All data obtained from the questionnaires is desk reviewed by appraisers and compared with cost guides. An "appraisal procedure memorandum" is used to transfer information between the real and personal property divisions for new construction events that concern both divisions. Field inspections are conducted at the discretion of the appraisers.

Construction in Progress

Section 71 requires the assessor to enroll construction in progress at its current market value on each lien date. On subsequent lien dates, if the new construction is still incomplete, the assessor must again enroll the construction in progress at its current market value. This process continues until the new construction is complete, at which time the entire portion of property which is newly constructed is reappraised at its current market value and a base year value assigned. We found no problems in the valuation of construction in progress.

Valuation

Section 71 provides that the assessor shall determine a new base year value for the portion of any taxable real property which has been newly constructed. Section 71 and Rule 463(d) also provides that the new construction shall be reappraised at its full value. Section 110.1(a)(2)(B) defines "full cash value" as the fair market value on the date the new construction is completed.

The assessor values new construction at its current market value as of the date of completion. In valuing new construction, the assessor uses all three approaches to value (the income approach, the comparative sales comparison approach and the replacement cost approach) if there is adequate data to do so, but most often relies on the sales comparison approach. When using the cost approach, the assessor uses cost data from the Assessors' Handbook Section 531, *Residential Building Costs*, the *Marshall Valuation Guide*, or the owner's actual cost, if available. However, there is room for improvement within this program.

RECOMMENDATION 4: Improve new construction documentation.

We found the appraisers in the Fresno County Assessor's office primarily use the *Marshall Valuation Guide* when assessing new construction of commercial/industrial buildings. Although construction information is often reported on the business property statement (BPS) the assessor does not pursue more detailed information from the taxpayer, even where there is a difference between reported costs and the assessor's cost estimates. Documentation in the assessor's building records fails to verify the origin of the reported costs.

While reviewing the enrolled values of commercial/industrial new construction and comparing those values with the reported costs on the BPS, we found several properties with substantial improvements that appear to have escaped assessment despite the real property division's enrollment of the shell structures. We also found several properties where the assessor valued new construction for considerably less than the costs reported on the BPS. Substantial portions

of the reported costs were omitted without explanation. Due to the lack of information and documentation in the property files it was impossible to determine how the appraiser arrived at the new taxable values.

When valuing new construction by the cost approach, the appraiser should be careful to ensure all costs are included. While the historical cost of a particular structure may not represent market value, by comparing historical costs to those found in published cost manuals, or by documenting comparable sales information, the appraiser can support the assessed value.

Declines in Value

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

The following table shows the number of decline-in-value assessments processed in Fresno County for the most recent years:

ROLL YEAR	DECLINE IN VALUE PROPERTIES
2006-07	7,529
2005-06	7,879
2004-05	10,669
2003-04	17,777
2002-03	30,061

To discover property with a current market value (CMV) that has declined in value below its FBYV, the assessor relies primarily on his appraisal staff's knowledge of current property values, and, to a lesser degree, upon taxpayers' requests for value reviews and assessment appeals. If a taxpayer believes the value of his or her property has dropped below the taxable value on the roll, the taxpayer may go to the assessor's Website and fill out an *Informal Request for Decline in Market Value Review* form and e-mail, fax or mail the form to the assessor. The taxpayer may also visit the assessor's office and fill out a *Taxpayer Referral Slip*.

The forms are logged into the computer system and tracked for processing purposes. The assignments may be made according to geographic region, the type of property involved (residential, commercial, rural or industrial), or by workload. The appraiser assigned to the review will contact the taxpayer for more information before completing the review. The senior appraiser reviews and approves the final values before they are processed.

The assessor reviews all decline-in-value properties annually. Properties currently in decline-in-value status are tracked on the assessor's computer system using a special code, which allows staff to print a list of properties needing annual review.

Our review of several decline-in-value properties found the assessor correctly ensures the annual inflation factor is not applied to decline-in-value properties until the properties' values have been restored to the FBV. Fresno County has a large quantity of subdivisions or homogeneous tracts. When a decline in value is discovered, the appraiser will typically review the assessments for the entire tract.

When returning the assessment of a property either in whole or in part to its FBV, the assessor notifies the property owner of the property's FBV, its CMV, and information about assessment appeals procedures.

We found no problems with the assessor's decline-in-value program.

California Land Conservation Act Properties

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

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

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

For the 2007-08 roll year, Fresno County had 14,787 parcels encumbered by 6,933 CLCA contracts. These lands comprised a total of 1,478,938 acres with a total assessed value of about \$3.4 billion. The acreage under contract, which represents about 38 percent of the land area in Fresno County, has fallen slightly since our last survey in 2002. The county also has land subject to Farmland Security Zone contracts (a more restrictive form of the CLCA contract), which includes 65 parcels encompassing 29,190 acres with an assessed value of about \$50 million. Fresno County has 280 contracts in nonrenewal status and 80 contracts have been cancelled.

Most of the rural property in Fresno County is devoted to agricultural use. Grapes, almonds, tomatoes, poultry, livestock, milk, cotton, onions, peaches and nectarines make up the top ten largest commodities by value. The county surpassed \$4.8 billion in gross production value of agricultural commodities in 2006, and is one of the largest producing agricultural counties in the nation. Agriculture is the largest industry in Fresno County.

The real property appraisers are responsible for collecting information about CLCA property within their assigned geographic areas. Specifically, the appraisers are responsible for updating property records and categorizing the rents into varying sub-strata. This information is then further processed by the senior appraiser who forwards it to the supervising appraiser for final review. After this process has been concluded, the supervising appraiser has a technician enter the information into the computer system.

Questionnaires are mailed out on an annual basis and information from the questionnaire is combined with other sources of agricultural data to determine the income and expenses to use in valuing specific properties. The computer program automatically calculates restricted values, using the correct capitalization rate, including components for property taxes and risk. The program to value CLCA properties, however, is not connected to the assessor's computer; thus, staff must key the values into the system manually.

In our review of the Fresno County CLCA program, we noted a number of positive practices. We found the assessor uses an inclining-stable-declining approach for living improvements. In addition, supplemental assessments are made for the unrestricted portions of CLCA properties. Further, the assessor establishes base year values for homesites based on the market value at the date of sale. The assessor also recognizes compatible use income from properties when reported by assessees on their questionnaires. Our review noted no problems with the assessment program.

Taxable Government-Owned Property

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

For the assessment year 2007-08, the Fresno County Assessor assessed 124 parcels owned by government agencies located outside of the agency's boundaries. The 124 parcels had a total assessed value of \$5,292,435.

The assessor determines the taxability of government-owned properties at the time of acquisition by the local agency, by comparing tax-rate area maps to the county's list of government agencies located within each tax-rate area. The assessor checks the parcel for a previous base year value to determine if the parcel was taxable when acquired.

The assessor annually updates each taxable government-owned property's record with the factored base year value, the restricted value, and the current market value. All three values are used for comparison in determining the lowest value for annual assessment.

The assessor does not issue supplemental assessments when there is a change in ownership of taxable government-owned properties.

In our previous survey, we recommended the assessor determine the base year value of taxable government-owned properties at the lower of the restricted value or current market value. We found the assessor has not complied with this recommendation, therefore; it is repeated here.

RECOMMENDATION 5: Determine the base year value of taxable government-owned properties at the lower of current market value or restricted value.

The assessor determines the base year value of taxable government-owned properties when they change ownership by enrolling the lower of the current market value or the existing base year value (the previous owner's base year value).

Letter To Assessors 2000/037 provides that base year values for taxable government-owned properties acquired after March 1, 1975, are established at the lower of the current market value or the restricted value as of the date of change in ownership. In most cases, the restricted value will be lower than the current market value.

By enrolling the prior owner's base year value, the assessor is enrolling incorrect taxable values.

Timberland Production Zone Properties

Lands, zoned "Timberland Production Zone" (TPZ), are valued in accordance with special TPZ site classifications; the valuation of such lands excludes the value of any standing timber. The annual value of a TPZ property is determined by its appropriate per-acre site value (section 434.5) plus the lower of the current market value or the factored base year value of any compatible, nonexclusive uses of the property (section 435).

The special valuation methods for TPZ lands do not apply to structures on TPZ lands or to reasonable sites for such structures. In other words, structures and the sites directly related to those structures are assessed similar to all other real property.

Fresno County has 21 TPZ parcels comprising 1,505 acres. For the 2007-2008 roll year, the total assessed value of TPZ lands was approximately \$946,000.

Our review of TPZ records showed that the assessor properly follows the BOE's schedule of per-acre value for different site classes of TPZ parcels. The assessor updates TPZ values annually based on the site class values provided by the BOE. There are no TPZ parcels in rezoning status pursuant to Government Code section 51120. There are no TPZ parcels in non-renewal status. All of the land identified as TPZ is identified on the assessment roll with the notation *TPZ (Timber Preserve Zone)* in conformance with section 433.

The assessor accurately identifies and assesses improvements and compatible uses on TPZ properties at the lower of factored base year value or current market value.

In our prior survey, we recommended the assessor send questionnaires to TPZ property owners to discover existing, nonexclusive compatible uses. The assessor now sends an *Agricultural*

Crop & Lease Questionnaire to TPZ land owners, but the questionnaire does not include questions which would help determine where existing, compatible, nonexclusive uses exist.

RECOMMENDATION 6: Include questions that will aid in the discovery of existing, nonexclusive compatible uses on questionnaires sent to Timberland Production Zone property owners.

We found that the assessor values permitted exclusive uses, such as residential home sites, but does not have a program for discovering existing compatible, nonexclusive uses on TPZ properties.

Section 435(a) requires the assessor to value timberland according to the site value schedules expressed in section 434.5 and to value any compatible, nonexclusive uses of the land. These uses may include grazing, hunting, camping, and mining. The value of these compatible, nonexclusive uses must be determined annually and added to the site class values of the timberland.

The assessor does send out a questionnaire to TPZ property owners requesting other relevant data, but the questionnaire does not specifically include any questions pertaining to compatible uses. Without a systematic discovery procedure, property that produces income from compatible, nonexclusive uses may be escaping assessment. Therefore, the assessor should remedy this situation by including questions on compatible, nonexclusive uses in his questionnaire. The proper assessment of these compatible, nonexclusive uses will enable the assessor to be in full compliance with section 435(a).

Taxable Possessory Interests

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

The assessor enrolled 1,043 taxable possessory interests on the 2007-08 assessment roll totaling about \$166.8 million. These taxable possessory interests are located on property owned by approximately 100 public agencies and include a wide variety of uses including, but not limited to, fairground vendors and concessionaires, public employee housing, summer cabins, campgrounds, cable television franchises, hangars and tie downs at municipal airports, and grazing permits.

The assessor discovers taxable possessory interests by reviewing reports from government agencies and from field inspections. Every lien date, the assessor mails to each government agency in the county a summary of the taxable possessory interests the agency reported for the prior year. He requests from each agency that it add to the list any new users of the agency's property and delete those who are no longer using the property. In addition, the assessor usually asks the agency to send copies of any new rental agreements.

The assessor reports that approximately 80 percent of the requests are returned timely. For those agencies that do not respond to the assessor's request, the assessor's staff calls or visits the agency in person. Upon receipt of the returned requests, the information contained in the requests is forwarded to the appraiser responsible for the geographical area in which the taxable possessory interest is located.

We found the assessor to be adequately assessing taxable possessory interests.

Leasehold Improvements

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

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

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

Coordination between the business property and real property divisions is essential for proper assessment of leasehold improvements. Procedures should be designed to ensure that all new construction improvements are valued at the appropriate amount, are not assessed to multiple accounts, and are assessed to the proper person.

A section of the business property statement (Schedule B) deals specifically with real property owned or real property that is improved by either the owner or the tenants of premises housing business enterprises. Taxpayers are required to annually list additions, alterations, or deletions of real property improvements by reporting costs detailing changes to land, land improvements, and structures. In this way, taxpayers report costs of additions or alterations to tenant improvements. These changes must, by law, be reviewed and reflected in the property assessment if they qualify as new construction.

The assessor's policy requires the business property staff to send to the real property division a copy of each business property statement (Schedule B) that contains costs over \$25,000 for newly reported structures, land developments, and land improvements as well as any additional information relating to the costs.

The Fresno County Assessor has developed procedures to assess leasehold improvements that combine the resources of the real and personal property divisions. First, the real property division categorizes the properties between those large enough to support a supermarket and those that are not. Properties too small to support a supermarket are the responsibility of the real property division. Leasehold improvements added to these properties are assessed to the landlord.

Properties large enough to support a supermarket are placed on a "shopping center list". The responsibility for the assessment of leasehold improvements of properties on this list rests with the personal property division. Leasehold improvements (fixtures) added to properties on this list are assessed as trade fixtures to the tenant. The real property division has the responsibility for determination and tracking of properties that are on the "shopping center list." The leasehold improvements for all other property types are the responsibility of the real property division.

Communication between the real and personal property divisions is accomplished through the use of business property statements, *Appraisal Procedure Memorandums* (APMs) and the sharing or distribution of copies of building permits between the two divisions. Auditor-appraisers forward copies of BPSs to the appropriate senior real property appraiser for analysis when structural leasehold improvements are reported. Responsibility for the assessment of structural leasehold improvements generally falls upon the real property appraisers. However, there are situations where the auditor-appraiser and the real property appraiser will confer to make a final decision. The real property appraisers generally send APMs to the personal property division to notify the auditor-appraisers of information that needs to be addressed by their division.

The primary discovery tools for leasehold improvements are BPSs and building permits. Other discovery tools include surveys of tenants in commercial buildings, review of leases, field observation, and audits of business records. All reported costs on the BPSs that are not clear as to classification are investigated.

We found that the assessor fails to keep adequate documentation and records of appraisal events. This issue was addressed in Recommendation 4, above.

Water Company Properties

Taxable water company properties may include properties owned by private water companies, mutual water companies, or some types of government-owned water system properties. Each type of water company presents different assessment issues for the property owned by it.

Municipal Water Systems

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

taxation if it was taxable at the time it was acquired by the district under article XIII, section 11 of the California Constitution.

We found that parcels in Fresno County owned by municipal water systems and located within their respective districts are properly exempted from taxation.

We found no problems with property owned by municipal water systems.

Private Water Companies

Private water companies are utility companies that earn profit from the sale of water. The California Public Utilities Commission (CPUC) regulates the rates charged by private water companies, limiting profits to an authorized return on the company's unamortized investment in plant and equipment. Such "rate based" valuations may result in the current market value of the real property being lower than its factored base year value. Accordingly, assessors should value these properties by using the historical cost less depreciation (HCLD) approach to value.

We identified three private water companies regulated by the CPUC with property located in Fresno County. In our prior survey, we recommended the assessor enroll the lower of current market value or factored base year value for these CPUC-regulated water company properties. The assessor has not implemented this recommendation. Therefore, it is repeated here.

RECOMMENDATION 7: Enroll the lower of current market value or factored base year value for properties owned by regulated water companies.

For improvements owned by regulated water companies we found the assessor annually recalculates the HCLD of the improvement and enrolls the indicated value for the improvement. However, the land is assessed at its factored base year value (FBYV). Section 51(d) states that the appraisal unit is that unit that persons in the marketplace commonly buy and sell as a unit, or that is normally valued separately. For water companies, that unit is the land and improvements. Accordingly, the assessor should enroll the lower of the total current HCLD value of the land and improvements or the FBYV of the land and improvements, whichever is lower. To enroll the FBYV of the land and the current market value of the improvements, without evaluating the current market value and the FBYV, to determine which one is the lowest, is inappropriate. Accordingly, we recommend the assessor enroll the lower of current market value or factored base year value for privately owned water company property regulated by the CPUC.

Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost primarily for its members or stockholders. Usually, the individual ownership interests in a mutual water company are appurtenant to individual parcels of land eligible for water service from the company. In such cases, to avoid double assessments, little value should be assigned to the land, improvements, or to the delivery system owned by the water company; the values of these properties are reflected in the assessments of the member or stockholder parcels. However, if the ownership in a mutual water company is not appurtenant to the land, its land,

improvements, and personal property must be assessed separately from the parcels it serves. We identified seven mutual water companies in Fresno County.

In our prior survey, we recommended the assessor obtain articles of incorporation for all mutual water companies. The assessor has not implemented this recommendation; thus it is repeated here.

RECOMMENDATION 8: Obtain the articles of incorporation for all mutual water companies.

We reviewed the records of all seven of Fresno County's mutual water companies and found the assessor has not obtained articles of incorporation for any of the companies. In order to assess the real and personal property of mutual water companies correctly, the assessor must review the articles of incorporation and asset lists. Without the articles of incorporation, the assessor cannot ensure that all of the assets of the mutual water companies are listed or appropriately reflected in the value of the properties served.

Mineral Properties

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties. There are no assessable geothermal properties in Fresno County.

Prior to 2006, the assessor used a consultant to value both petroleum and mining properties in the county. However, beginning in 2006, in an attempt to reduce expenses, he stopped using the services of the consultant.

Petroleum Property

At about the time the assessor eliminated the services of the consultant, the clerk who coordinated the work between the consultant and the assessor retired.

In reviewing the appraisal records, we found some records were incomplete or missing. This appears to be attributed to the transition from not using the consultant and the loss of the dedicated clerk. The assessor is taking steps to update and recover all appraisal records.

As has been seen in other counties with petroleum production, the recent increases in product prices have increased the market value of many properties above their adjusted base year value. Therefore, the assessor is correctly enrolling the factored base year value for many of the petroleum properties in the county.

Mining Property

Fresno County has several sand and gravel quarries. These properties, formerly appraised by the mineral consultant, are now appraised by the assessor. In a prior survey, it was recommended the assessor appraise mineral properties as a unit for measuring declines in value and establish separate appraisal units for settling ponds as required by section 53.5.

While the assessor agreed with the recommendation regarding settling ponds, he has not implemented the necessary procedures. Concerning our recommendation about appraising mineral properties as an appraisal unit for recognizing declines in value, the assessor believes his procedures provide an accurate estimate of the market value of the properties and does not need to be revised. However, his procedures do not conform to regulatory guidelines.

RECOMMENDATION 9: Improve the mineral property assessment program by:
(1) valuing settling ponds as a separate appraisal unit as required by section 53.5; (2) appraising mineral properties as a unit according to Rule 469(e)(2)(C); and (3) determining fair market value of mineral properties each year as required by Rule 469.

Value settling ponds as a separate appraisal unit as required by section 53.5.

The assessor is still appraising settling ponds as part of the mineral operation. Section 53.5 provides that each leach pad, tailing facility, or settling pond shall be considered a separate appraisal unit. Originally intended for gold mining properties, this statute does not make any distinction between settling ponds for gold mines or other mineral properties.

Settling ponds can be associated with sand and gravel operations where the gravel is washed and the sand is later collected for further sorting. The occurrence of settling ponds can be identified by reviewing the conditional use permit from the county's planning department or from a visual inspection of the property.

The difficulty in valuing settling ponds is that they rarely, if ever, change ownership separate from the rest of the mineral operation. Notwithstanding, however, the statutory provision provides that they are to be treated as a separate appraisal unit. One approach to valuing settling ponds, which we recommend using, is to use the cost approach and depreciate the value as the ponds are filled with material.

Appraise mineral properties as a unit when measuring declines in value according to Rule 469.

We found the assessor has not implemented changes to appraise mining properties as a unit. When measuring declines in value, instead of comparing the factored base year value with the current market value of the appraisal unit and enrolling the lower of the values, the assessor enrolls the lowest value for each portion. For example, he will determine the lower value for the mineral rights portion of the property, which could be the factored base year value, and the lower

value for improvements and fixtures, which could be the current market value, and then enroll those values for each portion of the property.

Rule 469(e)(2)(C) provides that when measuring declines in value of mineral properties, the appraisal unit is land, improvements including fixtures, and reserves. Excluded from this appraisal unit are leach pads, settling ponds and tailing facilities as provided in section 53.5. To properly measure the declines in value for the appraisal unit, the assessor must determine the factored base year value and the current market value of the whole unit, and then allocate this value to each portion of the unit. Failure to measure declines in value on the entire appraisal unit is contrary to the intent of Rule 469.

Determine fair market value of mineral properties each year as required by Rule 469.

We found for mining properties, which did not add new reserves, the assessor did not estimate the current fair market value. If there are no new reserves and existing reserves are reduced by depletion, then the current market value could be lower than the factored base year value.

Rule 469 requires the fair market value of a mineral property be determined each year so the value of the new reserves can be added to the factored base year value. The current market value is compared with the factored base year value of the property to ensure the lower of the two is enrolled.

Failure to estimate the current market value of the property could result in over assessment.

Pipeline Rights-of-Way

Inter-county pipeline rights-of-way were assessed by the BOE from approximately 1982 until 1993, when an appellate court ruled that such assessments were outside the BOE's constitutional authority.⁸ The court ruled that while the pipelines themselves are properly assessed by the BOE, the rights-of-way through which the pipelines run must be locally assessed. Subsequent to this court ruling, the Legislature added sections 401.8 through 401.13, which govern the valuation of inter-county pipeline lands and rights-of-way.

When valuing the pipeline rights-of-way prior to the appellate court decision, the BOE developed "density classifications" for appraisal purposes. In 1996, the state passed legislation that precluded legal challenge by taxpayers of any assessment made in accordance with the BOE's density classifications. Therefore, most assessors generally use the BOE developed classifications to take advantage of this statutory presumption of correctness. Should an assessor use different classifications or associated values, the assessor loses the benefit of a statutory presumption of correctness. Fresno County uses the density classifications found in section 401.10(a)(3)(A). High density is valued at \$20,000 per mile, transitional density is valued at \$12,000 per mile, and low density is valued at \$9,000 per mile. In Fresno County, pipeline rights-of-way are classified as low density.

⁸ *Southern Pacific Pipe Lines Inc. v. State Board of Equalization* (1993) 14 Cal.App.4th 42.

In Fresno County, the assessor is assessing eight utility companies with pipeline rights-of-way. There are 12 parcels covering 394.228 right-of-way miles. Among the 12 parcels, two are abandoned (30.740 miles), one is valued at \$12,000 per mile (6.211 miles), and nine are valued at \$9,000 per mile (357.277). The assessor maintains a separate base year value for each separate right-of-way interest, but assesses the rights-of-way to a single county-wide parcel as required by section 401.8(a). For the 2007-08 assessment roll, the total assessed value of the single county-wide parcel was \$5,456,642. We found the assessor was valuing pipeline rights-of-way in accordance with the provisions of sections 401.8 through 401.13.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

In this section of the survey report, we review the assessor's programs for conducting audits, processing business property statements, valuing business property, and discovering and assessing leased equipment, manufactured homes, aircraft, vessels, and animals.

Audit Program

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

Prior to January 1, 2009, section 469 required county assessors to audit, at least once every four years, the books and records of any taxpayer engaged in a profession, trade, or business, if the taxpayer has assessable trade fixtures and business tangible personal property valued at \$400,000 or more. These statutorily required audits are commonly referred to as *mandatory audits*. Additionally, a county assessor may audit the books and records of taxpayers with holdings below \$400,000 in value under the authority of section 470. These audits are referred to as *non-mandatory audits*. Generally, county assessors perform both mandatory and nonmandatory audits to ensure that their audit program includes a representative sample of all sizes and types of taxpayers with personal property holdings subject to the property tax.

Effective January 1, 2009, county assessors are no longer required to audit all taxpayers with trade fixture and business tangible personal property holdings of \$400,000 or more at least once every four years. Instead, county assessors are required to annually audit a *significant number of audits* as specified in section 469, as amended. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with at least 50% to be selected from a pool of those taxpayers with the largest assessments. Thus, while section 469 still mandates a certain level of audits which must be performed annually, assessors now have some flexibility in determining which accounts will comprise this mandated workload.

The following table shows the total number of audits completed in Fresno County over recent years:

DESCRIPTION	2007-08	2006-07	2005-06	2004-05
AUDIT WORKLOAD				
MANDATORY	297	298	244	307
NON-MANDATORY	136	111	102	183
TOTAL AUDITS SCHEDULED	433	409	346	490
UNFINISHED FROM PRIOR YEAR	35	29	58	54
TOTAL AUDIT WORKLOAD	468	438	404	544
AUDITS COMPLETED				
MANDATORY	296	294	261	299
NON MANDATORY	137	109	114	187
TOTAL AUDITS COMPLETED	433	403	375	486
MANDATORY AUDITS CARRIED FORWARD	25	24	20	37
NON-MANDATORY AUDITS CARRIED FORWARD	10	11	9	21
TOTAL AUDITS CARRIED FORWARD	35	35	29	58

The assessor has ten full-time auditor-appraisers assigned to do audits. The auditor-appraisers perform audits as well as processes business property statements filed each year by taxpayers. Based on recent audit history, the assessor is in compliance with the number of audits mandated pursuant to section 469.

Statute of Limitations

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

We found the assessor is not consistently obtaining these waivers.

RECOMMENDATION 10: Request a waiver of the statute of limitations when an audit will not be completed in a timely manner.

The assessor is not consistent in requesting waivers of the statute of limitations from taxpayers when his staff anticipates an audit will not be completed in a timely manner. If the assessor cannot complete the mandatory audit within the prescribed time period, the assessor should ask the taxpayer to sign a waiver of the statute of limitations, as authorized by section 532.1, in order

to extend the time for making the assessment. This waiver protects the taxpayer if there was an over assessment and allows the assessor to enroll an escape assessment if a reporting deficiency is discovered. By failing to obtain waivers, the assessor may have allowed taxable property to escape assessment due to the expiration of the statute of limitations for enrolling escape assessments.

Audit Quality

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

We found that the assessor performs change in control (ownership) reviews, verifies leased equipment, enrolls construction in progress, accounts for supplies, and properly classifies equipment, among other things. In all cases, audits were accurate and well documented; however, we did note one area of concern involving procedures related to audits.

RECOMMENDATION 11: Improve the audit program by enrolling audit results for each year of a multiple-year audit.

We found the assessor offsets assessment differences resulting from a multi-year audit into the most recent year.

Section 531 requires that "if any property belonging on the local roll has escaped assessment, the assessor shall assess the property on discovery at its value on the lien date for the year for which it escaped assessment." When incorrect assessments are discovered for multiple years as a result of an audit, section 533 allows tax refunds to be an offset only against proposed tax liabilities, including accumulated penalties and interest; it does not allow for an offset of under assessments against over assessments.

Furthermore, offsetting tax refunds with proposed tax liabilities is the responsibility of the county auditor, not the assessor. By "netting" assessments for multiple years into the most recent year of audit, the assessor is allowing potential tax revenue to escape assessment. If there are escaped assessments for earlier years, penalties and interest for those assessments will be lost.

Business Property Statement Processing

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

Workload

The following table displays the number of property statements processed by the assessor for business, leased equipment, and other property types and their corresponding assessed values for the 2007-08 roll year:

TYPE	STATEMENTS	ASSESSED VALUE
General Business	20,459	\$3,315,562,195
Agricultural	10,352	\$55,217,900
Apartments	1,059	\$24,358,500
Financial	335	\$29,128,200
Leased Equipment	4,695	\$403,137,100
Service Stations	420	\$59,899,700
Other	14,559	\$488,706,145
TOTAL	51,879	\$4,376,009,740

We reviewed the assessor's property statement processing procedures and business property files to ensure that they conform to statutory and regulatory guidelines. A sampling of BPSs was reviewed to verify the use of BOE-prescribed forms, processing by certified staff, completeness of the property statements, application of penalties for late-filed BPSs, coordination with the real property division, and record storage and retention.

We found the statements are checked for completeness and for valid signatures, and all statements are date stamped when received. If a statement is unsigned, a copy is made and the original is returned to the taxpayer for signature. If a statement is received late, the date-stamped envelope is retained and a penalty is added as prescribed by section 463. Additionally, beginning with the year 2006-07, the Fresno County Assessor-Recorder began accepting e-filed property statements. In the year 2007-08, the assessor received approximately 2,100 electronically filed property statements. The assessor's method for accepting e-filed statements has been approved by the BOE as required by section 441(k).

Discovery

Taxpayer self-reporting is the principal means of discovering assessable property. Other means of discovering assessable business property include reviewing business permits, fictitious business name filings, newspaper articles, advertisements, telephone directories, referrals from other counties, and BOE notifications. We found the assessor employs effective methods for discovering business property.

Business Equipment Valuation

Assessors value most machinery and equipment using business property value factors. Value factors are derived by combining price index factors (trend factors) with percent good factors. A

value indicator is obtained by multiplying a property's historical (acquisition) cost by an appropriate value factor.

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

Price index factors measure the trended value of goods over their service lives. The percent good factors are intended to reflect the average loss in value that commercial and industrial equipment will suffer over their service lives. The factors are based on averages and represent a reasonable estimate of the annual changes for the majority of business machinery and equipment.

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

Machinery and equipment must be classified as either personal property or fixtures (improvements) depending on whether the item is physically or constructively annexed to real property with the intent, as evidenced by outward appearance, that the item will remain annexed indefinitely. We found no problems either in the valuation or the classification of machinery and equipment, and therefore, have no recommendations for this topic.

Leased Equipment

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

Lessees are required to report all leased property (taxable property in their possession, but belonging to others) on their annual property statement. They are also required to provide information on the type of property, the year of acquisition and manufacture, the cost to purchase the property new, a description or lease number, and the owner's name and address. A cross-check of information reported by lessors and lessees verifies the accuracy of the reported information.

In Fresno County, the assessor sends a supplemental form, *Leased Equipment List*, along with the BPS to accommodate the reporting of numerous leased assets. Once the completed statements are received, clerical staff reviews the submitted statements to ensure that they include authorized signatures. If the statement is duly signed, then it is forwarded to an auditor-appraiser for processing.

The auditor-appraiser first reviews the submitted statement for completeness to determine whether the lease expires during the reported period. Copies of "drop-off" or contractually expired leased equipment declarations are filed in the lessee's property record to aid in future processing of the lessee's statement. Current reported cost information is also cross-referenced with the previous enrollments to ensure reasonableness. New taxable equipment information is also updated into the system, and any new assessments are created when necessary.

When processing a lessee's statement that includes leased equipment reported on Part III of the BPS, the auditor-appraiser cross references the reported information with the lessor's property statement to determine if the equipment is already assessed to the lessor. If the reported leased equipment is not assessed to the lessor, then the auditor-appraiser will assess the equipment to the lessee.

In addition, when the assessor receives notice from a lessor that a lease has been cancelled, or terminated, the assessment pertaining to the lessor is cancelled. A file with details pertaining to the lease is filed with the lessee's property statement. The equipment, in most cases, is presumed to be acquired by the lessee unless the assessor is otherwise advised. The respective value of the equipment is enrolled. This process helps to reduce the possibility of double assessments or escape assessments.

The assessor also has procedures in place to minimize the possibility of escape assessments occurring subsequent to the transfer of off-lease equipment from the lessor to the lessee.

In addition, we reviewed the annual property statements of several lessors and found the assessor maintains effective procedures for the enrollment and tracking of leased equipment. We found the assessor properly distinguishes between leases and conditional sales contracts, and follows correct appraisal and assessment procedures.

Manufactured Homes

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

For the 2006-07 assessment year, Fresno County had approximately 6,900 manufactured homes including those located in mobilehome parks, with a total assessed value of \$132,907,364.

The following table illustrates the number of manufactured homes assessed by the assessor, and their total assessed value for recent years:

ROLL YEAR	MANUFACTURED HOMES	TOTAL ASSESSED VALUE
2005-06	6,512	\$120,455,716
2004-05	6,425	\$110,727,642
2003-04	6,464	\$100,628,400
2002-03	6,481	\$97,107,978

There are 102 mobilehome parks in Fresno County. The remaining homes are sited on lands other than mobilehome parks. Manufactured homes in mobilehome parks and on fee land are identified with a specific assessment number to distinguish between the two. The assessment number assigned to the manufactured homes relates to the map book where the manufactured homes are located, whether the manufactured homes are located in a mobilehome park or on fee parcels. If the owner of the manufactured home is also the owner of the land, the manufactured home is assessed to a fee parcel number.

In Fresno County, two real property appraisers process all assessments of manufactured homes located in mobilehome parks, while appraisers responsible for specific areas handle the valuation of all other manufactured homes located on fee lands located within their assigned geographic areas. In compliance with sections 5801(b)(2) and 5830, the assessor enrolls manufactured homes as personal property on the secured roll.

Taxable manufactured home accessories are discovered through review of building permits and appraiser canvassing; they are valued as part of the manufactured home. If the manufactured home is on a fee-owned parcel, the structural accessories are assessed as improvements. Fresno County has a low value property tax exemption ordinance that exempts from taxation real and personal property having a value not exceeding \$3,000.

The assessor discovers new and transferred manufactured homes in the county by reviewing State Department of Housing and Community Development reports, building permits, dealer reports of sale, tax clearance certificates, Preliminary Change of Ownership Reports, and through appraiser canvassing.

In determining the full cash value of a manufactured home on rented or leased land, the assessor, pursuant to section 5803(b), uses the selling price and takes into consideration sales prices listed in recognized value guides for manufactured homes.

The assessor correctly applies supplemental assessments to new and transferred manufactured homes. Exemptions are correctly handled for the assessment of manufactured homes held in dealer's inventory and those held or owned by financial institutions and insurance companies. In compliance with section 5803, site value is not included in the manufactured home assessment when the manufactured home is located on rented or leased land.

The assessor has a well administered program for assessing manufactured homes.

Aircraft

General Aircraft

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

Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft with the *Vref Aircraft Value Reference (Vref)* as an alternative guide for aircraft not listed in the *Bluebook*. In addition the BOE provides general guidelines in Assessors' Handbook Section 577, *Assessment of General Aircraft*.

The Fresno County Assessor's Office assessed 622 general aircraft (other than historical aircraft) for the 2007-08 assessment roll with a total value of approximately \$980 million. One senior auditor-appraiser, assisted by one assessment clerk, administers the assessor's aircraft assessment program. The assessor discovers aircraft through annual field canvassing, review of Federal Aviation Administration reports, information from taxpayers, and referrals from other counties.

An aircraft property statement is mailed every year to the known owner of each aircraft in the county. The aircraft property statement requests information about the aircraft. It lists the aircraft and requests that the owner provide information regarding the installed avionics, engine air hours since last major overhaul, date of last overhaul, overall condition, air worthiness status, cost information, and transfer information if the aircraft has been sold since the last lien date.

Upon receipt of the aircraft property statement, the assessor uses the *Aircraft Blue Book* to calculate a market value indicator. Adjustments for sales tax, overall condition of the aircraft, additional or special equipment, airframe hours, and engine hours since last major overhaul are properly incorporated into the calculation. The values of newer aircraft are most affected by the presence or lack of optional equipment, while the values of older aircraft are influenced more by the condition of the aircraft.

We reviewed several general aircraft records for valuation methodology, legal signatures on the property statements, and the application of late or failure-to-file penalties pursuant to section 5367. We found the assessor's procedures for the discovery and valuation of general aircraft conform to statutory provisions and guidelines.

Certificated Aircraft

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

The assessor correctly assesses the certificated aircraft owned by 11 commercial airline companies serving Fresno County. The total assessed value of the certificated aircraft is \$55 million. The aircraft are assessed using the appropriate allocation formula provided in section 1152, which considers flight and ground time as well as arrivals and departures. This information, critical in determining the aircraft assessments, is routinely gathered from owners of certificated aircraft in the course of the assessor's audits. We have no recommendations in this area.

Historical Aircraft

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

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

There were 137 historical aircraft assessed on the 2007-08 roll in Fresno County with a total value of \$4,758,000. The assessor properly obtained signed affidavits in the format prescribed by the BOE. We reviewed several historical aircraft assessments and exemption claims and found several claims were granted without the proper signed certification of attendance.

RECOMMENDATION 12: Grant the historical aircraft exemption only to qualifying aircraft.

We found a number of claims where the dates that the aircraft had been displayed to the public were not sufficiently detailed to ensure that the required number of days had been satisfied. In addition, there were several claims that did not have the proper certificate of attendance signed by the event coordinator where the aircraft was displayed to the public.

Section 220.5 allows an exemption for "aircraft of historical significance" only if, among other things, the aircraft is available for public display for at least 12 days during the year immediately preceding the current lien date for which the exemption is claimed. This code section also requires that a certification of attendance be signed by the event coordinator of the event at which the aircraft was publically displayed and that the certification of attendance be attached to the historical aircraft exemption application when applying for the exemption.

The assessor should ensure that the requirements for claiming this exemption have been completely met before granting the exemption. We recommend the assessor grant the historical

aircraft exemption only to qualifying aircraft and only when all of the requirements of section 220.5 have been met.

Vessels

Assessors must annually appraise all vessels at market value. The primary sources used for the discovery of assessable vessels include reports from the State Department of Motor Vehicles (DMV), referrals from other counties, information provided by the vessel owners themselves, certificates of documentation issued by the United States Coast Guard, harbormasters' reports, and field canvassing. The Fresno County Assessor uses all these sources.

The assessor valued 4,674 vessels on the 2007-08 roll with a total assessed value of nearly \$53.4 million. The assessor maintains a computerized vessel database that contains ownership data, including the purchase date, price of the vessel, current assessed value, and a description of the vessel. The database enables the assessor's staff to access information on vessels by California registration number, assessor's parcel number, or account number.

The following chart details the number of vessel assessments processed by the assessor and their assessed values for Fresno County for recent years:

ROLL YEAR	VESSELS	ASSESSED VALUE
2007-08	4,674	\$53,382,828
2006-07	4,462	\$47,690,900
2005-06	4,039	\$38,017,200
2004-05	6,822	\$44,391,300
2003-04	7,291	\$48,393,800

The assessor has an effective program for assessing vessels; however, we found one area needing improvement.

RECOMMENDATION 13: Properly apply the low-value property tax exemption to vessels.

As stated above, Fresno County's low-value property tax exemption ordinance applies to personal property with an assessed value of \$3,000 or less. Our review of the assessor's records indicates that the assessor does not properly implement the low-value property tax exemption. Specifically, we found the assessor has been incorrectly valuing vessels below value, and then improperly applying the low-value property tax exemption since the incorrect value of the vessels fell below the \$3,000 low-value property tax exemption amount. We used the NADA appraisal guide to independently value several vessels that the assessor exempted and found the assessor had applied the low-value property tax exemption to vessels whose values were actually above the \$3,000 exemption limit. Although the NADA appraisal guide is not the exclusive authority for determining the value of a vessel, we are concerned that vessel assessments that are being removed from the roll using the low-value property tax exemption are not being adequately reviewed to ensure their value remains less than \$3,000. The assessor has no

authority to exempt vessels with a value greater than \$3,000. The assessor's practice of exempting vessels with a value greater than the \$3000 limit is contrary to the county ordinance.

Animals

Section 1(a) of Article XIII of the California Constitution mandates that all property is taxable unless specifically exempt under the California Constitution, the laws of the United States, or, in the case of personal property, by act of the Legislature. Most animals are exempt from taxation. Pets are exempt under section 224. Many animals that are considered business inventory are exempt under sections 129 and 219, and by Rule 133.

Fresno County has a number of assessable animals. Most animals are reported either on form BOE-571-F, *Agricultural Property Statement*, or on form BOE-571-F2, *Registered and Show Horse Statement*. It is the assessor's practice that all recipients of form BOE-571-F also receive a form BOE-571-F2.

Methods of discovering taxable animals include review of the local telephone directory, local news papers, *Agricultural Property Statements*, and audits of agricultural property.

We reviewed the procedures for discovering and assessing taxable animals, as well as various agricultural statements. We found the program to be well administered.

APPENDIXES

A. County-Assessed Properties Division Survey Group

Fresno County

Chief

Dean Kinnee

Survey Program Director:

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

David Dodson

Supervising Property Appraiser

Survey Team Leader:

Dale Peterson

Senior Specialist Property Auditor-Appraiser

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Dan Bibb

Associate Property Auditor-Appraiser

Alan Dannen

Associate Property Auditor-Appraiser

Paula Montez

Associate Property Auditor-Appraiser

Michael Brennan

Associate Property Appraiser

Chuck Matura

Associate Property Appraiser

Bob Rossi

Associate Property Appraiser

Debbie Scherer

Associate Property Appraiser

Prubjit Singh

Tax Technician I

Aaron Martinez

Tax Technician I

B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

15641. Audit of records; appraisal data not public.

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

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

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

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

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may 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 ten 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 ten 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 ten largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) RANDOM SELECTION FOR ASSESSMENT SAMPLING. The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
 - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.

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

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

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

Rule 371. Significant assessment problems.

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

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

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

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.

- (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

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

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



County of Fresno

Robert C. Werner
Assessor-Recorder

RECEIVED

JAN 28 2010

County-Assessed Properties Division
State Board of Equalization

January 25, 2010

Dean R. Kinnee, Chief, County-Assessed Properties Division
State Board of Equalization
Property and Special Taxes Department
PO Box 942879
Sacramento, CA 94279-0062

Dear Mr. Kinnee:

In accordance with Section 15645 of the California Government Code, attached is my response to the recommendations made in the Fresno County Assessment Practices Survey conducted by the State Board of Equalization dated December of 2009. Please include my response in your final survey report.

We appreciate the survey team's kind and positive remarks regarding the efficiency and effectiveness of our office's operations. The team's report found the Fresno County Assessor's Office to be effectively managed and meets the requirements for assessment quality established by Section 75.60. We also appreciate the team's recognition of the technological improvements we have worked hard to implement that have allowed us to operate more efficiently and better serve the residents of Fresno County.

The Mission of the Assessor's Office is to work together as a team to provide exceptional customer service and fair and equitable assessment. It is a pleasure to see that this survey affirms that commitment and the dedication and hard work of our staff.

Additionally, we would like to acknowledge and thank the Board's survey team for their professionalism, courtesy, and kindness during the survey process. They were truly a pleasure to work with.

Finally, I would like to thank my staff for their hard work, dedication, and "can do" spirit in these difficult times. They have a well deserved reputation in the county for excellent customer service and going the extra mile.

Sincerely,

Robert C. Werner
Fresno County Assessor-Recorder

Attachment

**RESPONSE TO CONFIDENTIAL Fresno County Post Conference Draft
December 2009**

RECOMMENDATION 1: Reassess property damaged by misfortune or calamity in accordance with section 51(a)(2).....11

RESPONSE: This recommendation will be taken under advisement. While the Board’s position has merit, we believe that our current interpretation and practice can also be supported and is in keeping with the spirit of Proposition 13 and supplemental assessments.

RECOMMENDATION 2: Apply section 482 penalties for failure to file completed *Change of Ownership Statements* timely.....18

RESPONSE: We concur. Unfortunately chronic understaffing has required us to prioritize our work assignments and reduce or delay some reports and processes. We will endeavor to reinstitute this process as we are able.

RECOMMENDATION 3: Track transfers of property, other than the principle residence, to enforce the \$1 million limit as provided by section 63.1.....20

RESPONSE: We concur. As mentioned above, chronic understaffing has required us to prioritize our work assignments and reduce or delay some reports and processes. We will endeavor to forward these transfers to the BOE for tracking purposes as we are able.

RECOMMENDATION 4: Improve new construction documentation.....23

RESPONSE: We concur. Unfortunately chronic understaffing has required us to reduce the amount of time we spend on documenting work processes. We will endeavor to improve our documentation as we are able.

RECOMMENDATION 5: Determine the base year value of taxable government-owned properties at the lower of current market value or restricted value.....27

RESPONSE: We concur.

RECOMMENDATION 6: Include questions that will aid in the discovery of existing, nonexclusive compatible uses on questionnaires sent to Timberland Production Zone property owners.....28

RESPONSE: We concur. Because there are only 21 TPZ parcels in Fresno County, this has not been a high priority. As time allows, we will seek to develop supplemental questions to be mailed with the Agricultural Questionnaire.

RECOMMENDATION 7: Enroll the lower of current market value or factored base year value for properties owned by regulated water companies.....31

RESPONSE: We concur. Because of staff turnover, we have lost some of the expertise in this area. We are in the process of retraining and will endeavor to implement this recommendation in the future.

RECOMMENDATION 8: Obtain the articles of incorporation for all mutual water companies.....32

RESPONSE: We concur.

RECOMMENDATION 9: Improve the mineral property assessment program by: (1) valuing settling ponds as a separate appraisal unit as required by section 53.5; (2) appraising mineral properties as a unit according to Rule 469(e)(2)(C); and (3) determining fair market value of mineral properties each year as required by Rule 469.....33

RESPONSE: We concur. We have been restructuring our Petroleum and Minerals division after moving the assessments in house and are still in process of refining our practices and dealing with an assessment backlog. We are in the process of implementing these recommendations.

RECOMMENDATION 10: Request a waiver of the statute of limitations when an audit will not be completed in a timely manner.....37

RESPONSE: We concur. This recommendation has already been implemented.

RECOMMENDATION 11: Improve the audit program by enrolling audit results for each year of a multiple-year audit.....38

RESPONSE: We reservedly concur. Our current mainframe-based property system makes it very difficult to track and address audit offsets from the Auditor's Office. However, our practice of netting multiple year audits is well received and understood by the taxpayers and has not been the subject of complaint.

RECOMMENDATION 12: Grant the historical aircraft exemption only to qualifying aircraft.....44

RESPONSE: We concur and will seek to implement this recommendation.

RECOMMENDATION 13: Properly apply the low-value property tax exemption to vessels.....45

RESPONSE: We concur. Unfortunately, current budgetary and staffing constraints make it difficult to implement this recommendation at this time.