

FRESNO COUNTY ASSESSMENT PRACTICES SURVEY

APRIL 2004

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April 23, 2004

TO COUNTY ASSESSORS:

FRESNO COUNTY
ASSESSMENT PRACTICES SURVEY

No. 2004/021

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 Property Tax Division from November through December 2002. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Both the retiring assessor, the Honorable William Greenwood, and the current assessor, the Honorable Robert C. Werner, gave us their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

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

Sincerely,

/s/ David J. Gau

David J. Gau
 Deputy Director
 Property and Special Taxes Department

DJG:jm
 Enclosure

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INTRODUCTION

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

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

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

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, and the Fresno County Grand Jury and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Robert C. Werner, Fresno County Assessor-Recorder,¹ elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

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

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 the county assessment roll meets a minimum assessment level for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Fresno County Assessor's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in Fresno County that 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

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

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

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

EXECUTIVE SUMMARY

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

In our 1999 survey report, we made 16 recommendations to address problems in the assessor's assessment policies and procedures. The assessor has fully implemented five of the recommended changes, partially implemented seven, and has not implemented four of them. The recommendations not implemented or only partially implemented are repeated.

We found many strengths in the assessor's programs:

- Fresno County is eligible for and participates in the State-County Property Tax Administration Program. The auditor-controller has certified that the county met the contractual requirements for grant purposes for every year under contract.
- The assessor, his appraisal and audit staff, and his mineral property consultants all hold the appraiser's certificates required by section 670.
- The assessor's programs for exemptions, assessment appeals, new construction, California Land Conservation Act properties, leasehold improvements, pipeline rights-of-way, business property statements, aircraft, and manufactured homes are administered effectively.

We noted the following areas as being in need of improvement:

- The assessor does not have a comprehensive policies and procedures manual.
- The assessor exempts low-value property without authorization by the board of supervisors.
- The assessor grants disaster relief without authorization from the board of supervisors.
- Many of the assessor's locally developed questionnaires contain an inappropriate penalty warning. Moreover, the assessor attaches some of these forms to BOE-prescribed forms.
- The assessor does not include the assessment roll notation required by section 533 for escape assessments.
- The assessor does not file a quarterly report with the BOE regarding claims for transfers of base year value by persons over age 55.
- The assessor adds the present worth of unpaid improvement bonds to the nominal selling price of real property without establishing that the property would have sold at a higher price if the bonds were not present.

- The assessor cancels some small supplemental assessments that will generate tax bills of less than \$10, without authorization by the board of supervisors.
- The assessor's notice informing an assessee of an increase in property value does not include all the information required by section 619(c).
- The assessor does not establish a proper base year value for newly acquired taxable government-owned properties.
- The assessor does not canvas Timberland Production Zone (TPZ) parcels for compatible uses.
- The assessor does not deduct operating expenses from the gross rent, and does not use market rent when assessing possessory interests (PI's).
- The assessor has not obtained copies of articles of incorporation for mutual water companies, has not requested any California Public Utilities Commission (CPUC) reports since 1997, and does not enroll the lower of fair market value or factored base year value for private water companies.
- The assessor does not appraise mineral properties as an appraisal unit as required by rule 469 nor does he value settling ponds as a separate appraisal unit as required by section 53.5.
- In assessing petroleum property, the assessor inappropriately defers abandonment expenses one or two years after the end of production, and includes a locally developed form with a BOE-prescribed form to collect property data.
- The assessor assigns an inappropriate minimum percent good factor to business property that has exceeded its assigned average service life.
- The assessor does not correctly identify and value agricultural and construction mobile equipment as new or used.
- The assessor does not list general aircraft in a separate section of the assessment roll. In addition, the assessor's aircraft statement requests more information than is allowed by section 5365 and contains a statement that failure to file the form on time will result in a penalty provided by section 5367.
- The assessor does not annually appraise vessels at market value.
- The assessor does not obtain information about racehorses from the California Horse Racing Board.

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.

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

RECOMMENDATION 1: Update the policies and procedures manual.16

RECOMMENDATION 2: Assess all property that is not otherwise exempt from taxation.19

RECOMMENDATION 3: Reassess property damaged by misfortune or calamity in accordance with section 51(a)(2).19

RECOMMENDATION 4: Use only BOE-approved rearranged forms.....20

RECOMMENDATION 5: Transmit non-prescribed forms and questionnaires in such a manner that it does not imply that the section 463 penalty applies to them..21

RECOMMENDATION 6: Include the escape assessment notation required by section 533 on the assessment roll.....22

RECOMMENDATION 7: File quarterly reports of base year value transfers with the BOE as required by section 69.5(b)(7).....25

RECOMMENDATION 8: Document the validity of adding the present worth of the outstanding balance of the improvement bonds to the nominal selling price of land as provided in section 110(b).27

RECOMMENDATION 9: Supplementally assess all qualifying changes in ownership and new construction.....29

RECOMMENDATION 10: Include the information required by section 619(c) on the value notice.30

RECOMMENDATION 11: Determine the base year value of taxable government-owned properties at the lower of current market value or restricted value.33

RECOMMENDATION 12: Send questionnaires to Timberland Production Zone property owners to discover existing, nonexclusive compatible uses.34

RECOMMENDATION 13: Determine a reasonably anticipated term of possession according to rule 21 when valuing possessory interests.35

RECOMMENDATION 14: Use BOE approved capitalization techniques when valuing short term possessory interests.....35

RECOMMENDATION 15: Apply economic rents when valuing possessory interests.35

RECOMMENDATION 16: Obtain articles of incorporation for all mutual water companies.....37

RECOMMENDATION 17: Enroll the lower of fair market value or factored base year value for water company property.38

RECOMMENDATION 18: Appraise mineral properties as a unit according to rule 469.....39

RECOMMENDATION 19: Value settling ponds as a separate appraisal unit as required by section 53.5.....40

RECOMMENDATION 20: Account for abandonment expenses at the end of the economic life of petroleum-producing property.40

RECOMMENDATION 21: Enroll the audit results for each year of a multiple-year audit....43

RECOMMENDATION 22: Use the AH 581 tables as intended.....45

RECOMMENDATION 23: Correctly identify agricultural and construction machinery and equipment and value using the appropriate "new" or "used" percent good factor.46

RECOMMENDATION 24: List general aircraft assessments in a separate section of the roll as required by rule 252(a).....47

RECOMMENDATION 25: Remove the penalty statement from the aircraft statement or modify it to specify that the penalty will only be added if the taxpayer does not report the information required by statute.....48

RECOMMENDATION 26: Assess all vessels at market value.....49

RECOMMENDATION 27: Assess all vessels unless exempted by law.50

RESULTS OF 1999 SURVEY

Low-Value Property Exemption

We recommended that the assessor not exempt low-value property from assessment unless the board of supervisors adopted a low-value exemption resolution. The board of supervisors has not yet adopted a low-value property exemption, however, the assessor continues to exempt various types of property having low values.

Assessment Roll Procedures

We recommended that the assessor use a roll notation, in conformance with section 533, to identify escape assessments. This recommendation has not been implemented.

We also recommended that the assessor use the date of enrollment, and not the date an audit is completed, as the date an escape assessment is added to the roll. The assessor has implemented this recommendation.

Supplemental Assessments

We recommended that the assessor cease canceling small supplemental assessments. The assessor continues to cancel small supplemental assessments that generate tax bills of less than \$10.

California Land Conservation Act Property (CLCA)

We made a two-part recommendation for the improvement of the assessor's CLCA program. The first recommendation was to relate the risk component in the CLCA capitalization rate to water availability. The assessor is now in compliance.

The second part of the recommendation was that the assessor develop written CLCA assessment practices and procedures. While he has not fully implemented this recommendation, the assessor has made a significant effort to comply with it.

Possessory Interests

In our previous survey, we made a five-part recommendation concerning the assessor's program for assessing taxable possessory interests (PI's). We recommended that the assessor improve his PI program by: (1) establishing a reasonable term of possession; (2) adding the present worth of future contract rents to PI equity selling prices; (3) stopping the discounting of PI values for a lack of liquidity; (4) increasing documentation on the appraisal records to include at least the anticipated term of possession, capitalization rate, and method of valuation; and, (5) using BOE-approved capitalization techniques when valuing PI's. The assessor has fully implemented two parts, partially implemented a third, and has not implemented two.

The assessor continues to use unrealistic terms of possession on some types of property, and hasn't implemented the first part of the recommendation. He has implemented the second portion by adding the present worth of future contract rents to PI equity selling prices. The assessor has discontinued discounting PI values for a lack of liquidity and, thus, has implemented the third portion of the recommendation. Additionally, documentation of assessment records has significantly improved. Finally, the assessor does not use BOE-approved capitalization techniques when valuing PI's. That is, the assessor continues to capitalize gross rents into value with no documentation that the lessees paid all operating expenses.

In addition to repeating two parts of the recommendation that have not been implemented, we are making one new recommendation regarding the use of economic rents in the valuation of possessory interests.

Water Companies

We recommended that the assessor expand his discovery program to ensure that all water companies were properly assessed. This recommendation has not been implemented.

We also recommended that the assessor use unitary valuation techniques to develop current market values of water company properties. The assessor still assesses water company improvements at the historical cost less depreciation (HCLD) level and assesses the land at its factored base year value (FBYV).

Mineral Property

We made a three-part recommendation that the assessor improve the assessments of petroleum property by: (1) recognizing abandonment expenses in the same year the property reaches its economic limit; (2) correctly determining the base year value of a property; and (3) revising the letters that request information from petroleum property owners. We also made one recommendation to improve the assessment of sand and gravel property by appraising mineral properties as a unit.

Currently, the assessor's practices in these areas are as follows: (1) the assessor still defers abandonment expenses one or two years after the end of production on the property; (2) we found no problems with the assessor's base year value determination; and, (3) the assessor's petroleum questionnaires still contain erroneous information concerning penalties for nonfiling. Lastly, the assessor still does not appraise sand and gravel properties as a unit.

Cable Television

We made a four-part recommendation that the assessor improve the assessments of cable television properties by: (1) including anticipated rate increases in income projections when using a discounted cash flow capitalization technique; (2) auditing the income and expense data supplied by the taxpayer; (3) including pole make-ready costs when valuing the cable distribution system; and (4) assessing supplies being held for inclusion into house-drops.

The assessor has implemented all parts of this recommendation.

Audit Program

We recommended that the assessor cease netting multiple years' audit changes. The assessor continues this practice.

We also recommended that the assessor notify the county auditor of audit findings that could result in offsetting tax refunds and liabilities. The assessor has implemented this portion of the recommendation. However, the assessor is still not in compliance with section 531 by offsetting any underassessment with overassessments for the four years being audited. And, the assessor is not notifying taxpayers of their right to appeal "no change audits" when escapes are offset by overassessments.

Finally, we recommended that the assessor adopt a consistent policy for determination of the years to be audited. The assessor has implemented this portion of the recommendation.

Property Statements

We recommended that the assessor return all duplicate property statements. The assessor has implemented this recommendation.

Business Property Index and Valuation Factors

We made a two-part recommendation that the assessor use the BOE's equipment index factors as recommended in Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors*, (AH 581) and use the BOE's recommended value factors to value computers. The assessor now uses the BOE's AH 581 and has modified his use of the BOE's recommended computer value factors. However, the assessor uses a mathematical average of index factors, not recommended by the BOE, to value agricultural and construction mobile equipment.

Equipment in Licensed Vehicles

We found that the assessor was assessing cellular telephones and two-way radios installed in licensed vehicles. Because these items are subject to vehicle license fees, we recommended that the assessor not assess them. The assessor has corrected this problem.

Vessels

We made a three-part recommendation for the improvement of the assessor's vessel assessment program.

First, we recommended that the assessor appraise all pleasure vessels annually at market value by using vessel valuation guides or developing depreciation factors based on market data. This method of valuation has not been implemented by the assessor.

Second, because Fresno County had not adopted a low-value property exemption resolution, we recommended that the assessor discontinue his practice of exempting all vessels having a value less than \$1,500, and instead exempt only those with a value less than \$400, as required by

statute. We found no change in the assessor's practice of exempting vessels that have a value between \$400 and \$1,500.

Finally, we recommended that the assessor use Form BOE-576-D, *Vessel Property Statement*. The assessor's use of a locally-developed statement precluded him from levying penalties against taxpayers who failed to file the statement. The assessor has implemented this portion of the recommendation.

Aircraft

We made a three-part recommendation aimed at assisting the assessor in improving his aircraft assessment program. The first part was that the assessor list general aircraft values in a separate section of the roll. Aircraft had been enrolled by parcel number, and individual assessments were interspersed with assessments of other types of property. Because of limitations in the assessor's computer program, this recommendation has not been implemented.

We also recommended that the assessor verify the 12 days of public display for aircraft granted the exemption for aircraft of historical significance. While the taxpayers do report public display dates, the assessor does not verify the reported information. The assessor now randomly verifies display events.

Lastly, we recommended that the assessor include sales tax in the value of aircraft unless the aircraft qualified for the sales tax exemption as a "common carrier." The assessor has implemented this recommendation.

OVERVIEW OF FRESNO COUNTY AND THE ASSESSOR'S OFFICE

Fresno County

Fresno County was created as a charter county, in April 1856, from the counties of Mariposa and Merced. The county is one of eight counties that make up the San Joaquin Valley in central California, which is rich in agriculture and petroleum resources.⁴

In size, 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.⁵ The city of Fresno is also the center of county government.

Fresno County has a total population of nearly 824,000 people. The top seven industries in terms of number of people employed, as of 2000, were as follows:⁶

Industry	Employment
Services	21.8%
Government	20.8%
Trade	20.0%
Manufacturing	8.7%
Mining and Construction	5.0%
Finance, Insurance and Real Estate	4.1%
Transportation and Public Utilities	3.9%

Fresno County Assessor's Office

Assessment Roll

The following table displays information pertinent to the 2002-03 assessment roll:

⁴ San Joaquin, Stanislaus, Merced, Madera, Fresno, Kings, Tulare, and Kern.

⁵ Clovis, Coalinga, Firebaugh, Fowler, Fresno, Huron, Kerman, Kingsburg, Mendota, Orange Grove, Parlier, Reedley, Sanger, San Joaquin, and Selma. *California Cities, Towns & Counties, 1994.*

⁶ California Employment Development Department.

Property Type	Number of Assessments	Enrolled Value
<u>Secured Roll</u>		
Residential	200,395	\$21,147,000,006
Commercial/Industrial	16,306	8,708,768,450
Agricultural	27,089	4,341,614,496
Manufactured Homes ⁷		92,278,405
Other Secured	4,307	225,180,070
Total Secured	248,097	\$34,514,841,427
<u>Unsecured Roll</u>		
General Aircraft	659	\$ 92,723,600
Commercial Aircraft	10	108,484,700
Vessels	7,185	44,949,000
Personal Property & Fixtures	28,043	2,398,645,781
Total Unsecured	35,897	\$2,644,803,081
Total Assessment Roll	283,994	\$37,159,644,508

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

Roll Year	Total Roll Value	Increase
2002-03	\$37,159,644,508	6.33%
2001-02	\$34,945,723,245	4.49%
2000-01	\$33,444,954,450	4.38%
1999-00	\$32,042,005,555	3.22%
1998-99	\$31,042,405,774	----

Staffing

The Fresno County Assessor's Office is budgeted for 128 full-time employees, plus eight part-time or seasonal employees. The assessor also employs two contract appraisers to appraise petroleum and mining properties. In order to perform his required duties, the assessor has divided his staff into five departments, i.e., administration, assessment standards, exemptions, real property, and business property.

The following table illustrates the staffing level, excluding vacant positions, for each of the assessor's departments, as shown on the assessor's 2001 organization chart:

⁷ There are 6,417 manufactured homes in Fresno County; land parcel count is included within the other main classifications.

DEPARTMENT	CERTIFIED	NON-CERTIFIED
Assessor	1	
Administration	5	2
Assessment Services		27
Real Property	44	24
Business Property	15	13
Total Assessor Staff	65	66
Contract Appraisers	2	

Certified represents the staff members who hold a BOE appraiser's certificate and may perform the duties of an appraiser or auditor-appraiser, for property tax purposes. Non-certified staff members do not possess a BOE appraiser's certificate and cannot make valuation determinations. Non-certified staff members assist the assessor in drafting, clerical and technical support. The administration unit includes the assessor, assistant assessor, administrative secretary, and assessment standards section. The assessment standards section includes data processing. Assessment services includes mapping, deeds, and assessment services-clerical. The assessment services is divided into two sections. One section is responsible for processing deeds and the other section processes all other documents that relate to the transfer of property.

The real property department includes 44 employees who hold a BOE appraiser's certificate: chief appraiser, three supervising appraisers, six senior appraisers, nine appraiser II's, and 25 appraiser III's. The real property department employees are assigned to appraisal crews that are responsible for specific geographic areas. Additionally, one appraisal crew is responsible for all commercial/industrial property; one crew is responsible for single family residences, condominiums, and taxable government-owned properties; and one crew is responsible for all agricultural and rural properties. Some appraisers, based on their individual expertise, are responsible for the appraisal of specific types of property. Twenty-four non-certified personnel assist the real property department.

The business property department includes 15 employees who hold BOE appraiser's certificates: a chief auditor-appraiser, one supervising auditor-appraiser, two senior auditor-appraisers, six auditor-appraiser III's, and five auditor-appraiser II's. In addition, the two contract appraisers are assigned to the business property department. Thirteen support personnel and two part-time employees assist the business property department.

The fifth unit is the petroleum unit. It is staffed primarily by consultants under contract to the assessor.

Staffing levels in the assessor's office have remained relatively steady for many years.

Budget

The 2002-03 assessment roll containing 283,994 assessments and was prepared during the 2001-02 fiscal year on a budget of \$8,429,175. The following table shows the assessor's budget for each of the last five years:

FISCAL YEAR	BUDGET AMOUNT	% CHANGE
2002-03	\$8,722,517	3.48 %
2001-02	\$8,429,175	(0.02 %)
2000-01	\$8,431,075	4.74 %
1999-00	\$8,049,633	(6.81 %)
1998-99	\$8,637,963	----

In addition to these budgeted amounts, the assessor received the following amounts from the sale of miscellaneous goods (maps, transfer list, and other items allowed for by law).

FISCAL YEAR	SALES
2002-03	\$44,487 ⁸
2001-02	\$47,163
2000-01	\$30,871
1999-00	\$35,075
1998-99	\$26,980

⁸ Through May 2003.

ADMINISTRATION

This portion 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. We examined the assessor's budget and workload, the State-County Property Tax Administration Program, appraiser certification, standards and quality control, exemptions, low-value property exemptions, disaster relief, and assessment forms. We also reviewed how the assessor handles corrections and changes to the completed assessment roll, and how the assessor prepares for and presents assessment appeals.

State-County Property Tax Administration Program

In 1995, the Legislature established the State-County Property Tax Administration Program (PTAP). This program provided state-funded loans to eligible counties for the improvement of property tax administration. This program expired June 30, 2001, and was replaced with the Property Tax Administration Grant Program, which is available to counties for fiscal years 2002-03 through 2006-07. The Grant program operates in essentially the same manner as the loan program except that if a county fails to meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

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

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

Fresno County has participated in the PTAP since the inception of the program. For fiscal year 2002-03, the State and county agreed to PTAP funding of \$1,165,249. Throughout the program, the assessor has maintained his staffing at the minimum level or higher, as required by the contract.

For the 2002-03 contract, entered into on June 25, 2002, the State and assessor have set the following goals:

- Enroll approximately 10,550 new construction events out of an estimated 11,500 accumulated workload;
- Enroll approximately 350 reappraisable transfers of ownership out of an estimated 21,000 accumulated workload;
- Defend approximately 500 assessment appeal cases that are scheduled by the Assessment Appeals Board, out of an estimated 600 accumulated appeals scheduled;

- Enroll assessments for all of the estimated 14,900 late and "no reply" property statements;
- Review and revalue, as appropriate, the backlog (accumulated workload) of 30,000 Proposition 8 parcels; and
- Complete an estimated 160 non-mandatory audits.

The Fresno County Auditor-Controller has certified to the State Department of Finance that the county met the contractual requirements for grant purposes for every year under contract.

Appraiser Certification

Section 670 requires all persons who perform the duties of an appraiser for property tax purposes to hold a valid certificate issued by the BOE. We found that the assessor and all staff members who act in the capacity of appraisers possess the required appraiser certificates.

Further, section 670 requires that any person who performs section 469 audits (i.e., audits of businesses, required every four years, that have assessable trade fixtures and tangible personal property in excess of \$400,000) must meet additional qualifications. All of the assessor's staff members who perform these mandatory audits have met the additional qualifications.

The County of Fresno has contracted with a private consulting firm to provide services to the assessor in the appraisal of oil, gas, and aggregate rock mineral rights within the county. The most recent agreement contains the required conditions including confidentiality and compensation fees required by section 674. In addition, the contract appraisers who appraise the oil, gas, and aggregate rock mineral rights hold BOE appraiser certificates.

Standards and Quality Control

The Standards and Quality Control Unit functions to ensure the consistency and quality of the appraisal product or taxpayer services. This function is accomplished by providing training, legal interpretations, and by coordinating the data processing systems.

A comprehensive written policies and procedures manual and an operational procedures manual are beneficial devices for communicating to staff the organization's goals. They are also sources of current information on subjects pertaining to general administration and operational requirements.

RECOMMENDATION 1: Update the policies and procedures manual.

The Fresno County Assessor does not have an updated formal policies and procedures manual. The existing manual was last updated in 1978. Currently, each unit has a collection of informal memos and other documents for their specific operations.

If the assessor's staff is to receive consistent, clear, and concise administrative direction, they need to have a formal, comprehensive policies and procedures manual. Such a manual should detail office rules, administrative practices, policy guidelines, specific standards, and uniform procedures for supervisors and staff. Establishing a formalized manual will help to ensure that all

policies and procedures are consistent with the agreed upon mission, goals, and direction of the assessor's office.

We recommend that the assessor update his procedures manual.

Exemptions

Church and Religious Exemptions

The church exemption is authorized by article XIII, section 3(f) of the California Constitution.

This provision, implemented by section 206 of the Revenue and Taxation Code, exempts from property taxation buildings, land on which they are situated, and equipment used exclusively for religious worship, whether such property is owned by the church or leased to it. Property that is reasonably and necessarily required for church parking is exempt under article XIII, section 4(d), provided that the property is not used for commercial purposes. The church parking exemption is available for church-owned property as well as leased property meeting the requirements in section 206.1

Article XIII, section 4(b), authorizes the Legislature to exempt property used exclusively for religious, hospital, or charitable purposes and owned or held in trust by corporations or other entities that: (1) are organized and operated for those purposes, (2) are non-profit, and (3) no part of whose net earnings inures to the benefit of any private shareholder or individual. The legislature has acted upon such authorization by enacting the religious exemption in section 207, which exempts property owned by a church and used exclusively for religious worship and school purposes.

The assessor processed 629 church exemption claims and 172 religious exemption claims for the 2002-03 assessment roll. The following table illustrates religious and church exemption data for the 1998-99 through 2002-03 assessment rolls:

YEAR	RELIGIOUS		CHURCH	
	Number	Exempt Value	Number	Exempt Value
2002-03	172	\$54,764,936	629	\$227,721,138
2001-02	187	\$49,610,877	620	\$210,386,723
2000-01	177	\$40,899,119	615	\$200,345,145
1999-00	193	\$41,152,889	577	\$191,275,049
1998-99	181	\$42,455,956	571	\$180,632,259

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

We found that the assessor is properly administering the church and religious exemption programs.

Welfare Exemption

The welfare exemption from local property taxes is available for property of organizations formed and operated exclusively for qualifying purposes (religious, hospital, scientific, or charitable), which use its property exclusively for those purposes. Both the organizational and property use requirements must be met for exemption to be granted.

The welfare exemption is co-administered by the BOE and county assessors. Effective January 1, 2004, the BOE is responsible for determining whether an organization itself is eligible for the welfare exemption and issues *Organizational Clearance Certificates* to qualified nonprofit organizations. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and approves or denies exemptions claims without review by the BOE.

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

The following table shows welfare exemption data from the 1998-99 through 2002-03 assessment rolls:

YEAR	WELFARE	
	Number	Exempt Value
2002-03	385	\$648,702,476
2001-02	694	\$463,301,003
2000-01	633	\$367,546,315
1999-00	592	\$515,888,356
1998-99	590	\$550,074,073

We found that the assessor is properly administering the welfare exemption program.

Low-Value Property Exemption

In our 1999 survey, we recommended that the assessor not exempt low-value property from assessment until the board of supervisors adopts a low-value property exemption resolution. The assessor concurred with the recommendation and stated that he was preparing a low-value property exemption resolution for consideration by the board of supervisors. However, the board of supervisors has not adopted the resolution.

RECOMMENDATION 2: Assess all property that is not otherwise exempt from taxation.

The assessor continues to exempt low-value property at varying levels of taxable value without authority. For example, possessory interests (PI's) are assessed only if the total value of the PI meets or exceeds \$3,000. An intra-office memo further states that, in general, increases in the assessed value of real property of less than \$2,000 or 2 percent, whichever is greater, and decreases in value of less than \$1,000, will not be enrolled.

In addition, the assessor does not assess personal property for apartment complexes smaller than eight units. The assessor considers the value insufficient to assess.

Section 155.20 authorizes the county board of supervisors to enact a resolution exempting from taxation all real and personal property with a value so low that the total taxes, special assessments, and subventions would amount to less than the cost of assessing and collecting them. Without a resolution, the assessor has no authority to exempt low-value property or low-value new construction from assessment.

We repeat the recommendation that the assessor assess all taxable property until the board of supervisors adopts a resolution authorizing the exemption of low-value property.

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. The Fresno County Board of Supervisors has not adopted a disaster relief ordinance.

RECOMMENDATION 3: Reassess property damaged by misfortune or calamity in accordance with section 51(a)(2).

Without the proper authorization from the board of supervisors, the assessor uses the procedures for making supplemental assessments to adjust taxable values on the current roll due to losses in value from misfortune or calamity. In order to grant relief, the assessor treats property with damage caused by a disaster or calamity as "negative" new construction. Thus, when he determines that a calamity has caused a loss in value, the assessor enrolls a negative supplemental assessment based on the amount of the loss.

Without a section 170 ordinance, the assessor can 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 FBYV or its full cash value reflecting reductions in value due to damage, destruction, and depreciation. This value is determined annually as of the January 1 lien date.

In order to classify damaged property as "new construction," the damaged structure must be severed from the property. Loss in value not associated with the severance of the structure is not

classified as "new construction." Consequently, the use of the supplemental roll to grant disaster relief is inappropriate.

We recommend that the assessor reassess property damaged by misfortune or calamity in accordance with section 51(a)(2).

Assessment Forms

Government Code section 15606 requires the BOE to prescribe the use of all forms for the assessment of property for taxation.⁹ The BOE currently prescribes 75 forms for use by county assessors and one form for use by county assessment appeals boards. Generally, the assessor has the option to change the appearance (size, color, etc.) of a prescribed form but cannot modify, add to, or delete from the specific language on a prescribed form. The assessor may also rearrange information on a form provided that the assessor submits such a form to the BOE for review and approval. Assessors may also use locally developed forms to assist them in their assessment duties.

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

RECOMMENDATION 4: Use only BOE-approved rearranged forms.

For 2002-03, the assessor timely filed the required forms checklists and draft rearranged forms. Of the 29 rearranged forms submitted, the BOE approved 25 forms. The assessor did not receive approval for the remaining four rearranged forms, but he is using them in his assessment programs. The four forms were the *Agricultural Property Statement* (BOE-571-F), *Business Property Statement* (BOE-571-L), *Disabled Veterans' Exemption Change of Eligibility Report* (BOE-261-GNT), and *Claim for Homeowners' Property Tax Exemption* (BOE-266).

Rule 171(a) requires the assessor to annually notify the BOE, on or before October 15, of the BOE-prescribed property statements and report forms that he will reproduce for use for the succeeding assessment year. Failure to submit the forms for BOE approval denies the assessor the legal right to apply the appropriate penalties for non-filing and late filing.

We recommend that the assessor use only those rearranged forms that have been approved by the BOE.

⁹ Also sections 480(b), 480.2(b), 480.4, and rules 101 and 171.

RECOMMENDATION 5: Transmit non-prescribed forms and questionnaires in such a manner that it does not imply that the section 463 penalty applies to them.

The assessor attaches several non-prescribed forms and questionnaires to the BOE-prescribed property statements, including petroleum statements, sent to property owners. The accompanying instructions imply that if the forms, both BOE-prescribed and non-prescribed, are not completed, a 10 percent penalty may be applied to the assessment under the provisions of section 463.

The assessor's non-prescribed forms and questionnaires, while an effective tool, are not BOE-prescribed and, therefore, cannot carry section 463 penalty assessments. The assessor has the authority under section 441(d) to request that additional information be made available to him. However, the assessor does not have the authority to apply the section 463 penalty when the taxpayer fails to complete a form or questionnaire that is not BOE-prescribed.

Section 441(d) requires a taxpayer to make available for examination information or records regarding his or her property. The taxpayer may make the information available by the completion of the assessor's designed forms and questionnaires or by allowing the assessor to inspect his or her records. If the taxpayer fails to make additional information available to the assessor, the assessor may seek remedies provided by sections 462, 468, and 501. However, the assessor does not have the authority to impose a penalty pursuant to section 463.

Commingling BOE-prescribed forms with non-prescribed forms gives the impression that if both forms are not completed, the taxpayer will be subject to the section 463 penalty. Therefore, we recommend the assessor transmit non-prescribed forms and questionnaires in such a manner that it does not imply that the section 463 penalty applies to them.

Assessment Roll Changes

The assessor has a duty to complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the roll to the auditor, the assessment roll may not be changed except as authorized by statute or by the board of supervisors. All assessment roll changes are based on 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 on the original roll, for any reason. 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 the previous five-year period:

Roll Year	Roll Changes
2002-03	1,921
2001-02	3,198
2000-01	2,990
1999-00	3,562
1998-99	5,374

We found that roll corrections are made within the authorized period of time and *Notices of Proposed Escape Assessment* are mailed to taxpayers at least 10 days before the escaped assessment changes are entered on the roll, as required by statute. However, we did note one area where the assessor's procedures for roll corrections do not meet statutory requirements.

RECOMMENDATION 6: Include the escape assessment notation required by section 533 on the assessment roll.

The assessor maintains both an electronic and a hard copy roll. The notation required by section 533 does not appear on either the electronic or hard copy roll. The escaped assessment is noted on the electronic roll by section number only, but does not contain the specific wording required by section 533.

Section 533 requires the assessor to enter a specific notation on the assessment roll when enrolling escape assessments. Section 533 provides that if the current roll is not the roll for the assessment year in which the property escaped assessment, the entry on the current shall be followed with the notation "Escaped assessment for year ____ pursuant to Sections ____ of the Revenue and Taxation Code."

The consequence of this omission is that an explicit statutory requirement for escape assessment procedures is not met. We recommend that the assessor include the escape assessment notation required by section 533 on his assessment roll.

Assessment Appeals

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 are the statutory provisions governing the conduct and procedures of assessment appeal boards (AAB) and the manner of their creation. As authorized by Government Code section 15606, the BOE has adopted rules 301 through 326 to regulate the functioning of the assessment appeal process.

Currently, the Fresno County Assessment Appeals Board consists of three regular members and two alternate members. Each of the five county supervisors nominates an appeals board member from his or her district. The term of each regular member serving on the assessment appeals board is three years. Alternate members serve for two years.

To qualify for a hearing before the board, the taxpayer must file an application with the appeals board clerk pursuant to section 1603. For supplemental assessments and other assessments made

outside the regular assessment period, the application must be filed with the clerk no later than 60 days after the date on which the assessee was notified of the assessment.

Applications received by the clerk of the assessment appeals board are reviewed and validated, and a copy is forwarded to the assessor. The assessor then forwards the appeal request to the appraisal crew responsible for the value being appealed. The appraiser who originally did the appraisal and his or her senior appraiser review the appraisal together. After the appraiser makes contact with the taxpayer, the assessor and taxpayer may stipulate to a mutually agreed upon value or the taxpayer may withdraw the original appeal claim. If no agreement can be reached with the taxpayer, or the assessor and taxpayer stipulate to a new value, the appeal process continues and a hearing is scheduled. A senior appraiser represents the assessor's office at the board hearing.

The following table shows the number of appeals filed, withdrawn, and those that resulted in stipulations for the last five years, based on the BOE's annual *Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices*:

Year	Total Filed	Carry Over ¹⁰	Total Appeals	Withdrawn	Stipulated, Hearing Required	Other ¹¹
2001-02 ¹²	505	N/A	505	N/A	N/A	N/A
2000-01	607	170	777	434	125	6
1999-00	859	122	981	580	243	3
1998-99	1,320	48	1,368	971	336	1
1997-98	1,913	83	1,996	956	947	2

The following table shows the disposition of the remaining appeals (those appeals in which the AAB must make a value determination):

Year	Reduced	Upheld	Increased
2001-02	N/A	N/A	N/A
2000-01	38	4	0
1999-00	2	31	0
1998-99	2	10	0
1997-98	2	6	0

Overall, the assessor's assessment appeal program is well administered. The staff handling appeals is experienced and well prepared. We found no problems with the assessor's assessment appeals program.

¹⁰ Pending appeals carried over from previous year.

¹¹ Invalid application or applicant failed to appear.

¹² The only data available are the total number of appeals filed.

ASSESSMENT OF REAL PROPERTY

The assessor's program for assessing real property includes the following 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 land subject to California Land Conservation Act (CLCA) contracts and taxable government-owned land.

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

Change in Ownership

Section 50 requires the assessor to establish a base year value for real property upon a change in ownership. Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee 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 reappraisal purposes.

Document Processing

The assessor's primary means of discovering properties that have changed ownership are deeds and other recorded documents. Because the assessor is also the county recorder, he has easy access to all recorded documents. From the total documents recorded, the assessor scans all documents that may indicate a reappraisable event. Approximately 20 percent of the recorded documents result in reappraisable events. The scanned records are available to staff members who perform assessment duties. The number of documents scanned, other than 1997-98, has remained relatively stable over the past five years, as illustrated by the following table:

FISCAL YEAR	SCANNED DOCUMENTS
2001-02	38,010
2000-01	38,970
1999-00	37,588
1998-99	37,542
1997-98	33,911

Assessor's parcel numbers (APN's) are prominently noted on documents. The assessor's sales division verifies the APN's and cross references the recorded documents with Form BOE-502-AH, *Preliminary Change of Ownership Report* (PCOR); Form BOE-502-A, *Change of Ownership Statement* (COS); and other documents relating to the transfer of the property. The sales division then inputs the information into the assessor's computer system. Transfers that create new parcels, lot line adjustments, or include metes and bounds descriptions are forwarded to the mapping unit in order to update the assessor's maps.

Homeowners' exemptions are automatically removed following a change in ownership. For properties that may qualify for a new homeowners' exemption, the exemptions staff mail a homeowners' exemption claim form to the new property owner.

Approximately 80 percent of the reappraisable events have PCOR's filed with the recorded documents. If a PCOR is not filed, the assessor sends the buyer a COS. If no response is returned, a second request is sent within 30 days. Approximately 75 percent of the requests are completed and returned to the assessor. Penalties for non-filing are applied automatically after 45 days from the date of the mailing of the initial COS.

Transfer of Base year Value to Replacement Dwelling

Any person over age 55, or severely and permanently disabled, may be eligible to transfer the base year value of his or her home to any replacement dwelling of equal or lesser in value that is located within the same county. In order to prevent duplication of claims for the transfer of a base year value to a replacement dwelling, the assessor must report quarterly to the BOE the information filed.

RECOMMENDATION 7: File quarterly reports of base year value transfers with the BOE as required by section 69.5(b)(7).

For over two years, the assessor has not submitted to the BOE quarterly reports of claims filed for transfers of base year value by persons over age 55.

To prevent duplicated transfers of the base year value, section 69.5(b)(7) requires the assessor to provide a quarterly report to the BOE for any claims filed and approved. This procedure is outlined in County Assessors Only (CAO) letter 99/23, dated December 6, 1999.

The consequence of failing to report to the BOE is that the BOE cannot provide current information to the assessors to prevent multiple claims. We recommend that the assessor submit quarterly reports to the BOE of all filed and approved claims for transfer of base year value under section 69.5.

Transfer Lists

Section 408.1 requires the assessor to maintain a list, available to the public, showing property transfers that have occurred within the preceding two years. This section provides that the list be divided into geographical areas and include the transferor and transferee if available, assessor's parcel number, address of the transferred property, date of transfer, date of recording and recording reference number, and the consideration in money paid if it is known by the assessor. The assessor's sales list is in compliance with section 408.1.

Legal Entity Ownership Transfers (LEOP)

Section 64 provides that certain transfers of ownership interests in legal entities are changes in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 provides a detailed interpretation of section 64 changes in ownership or control and applicable exclusions. Discovery of such a change in ownership is difficult because ordinarily there is no recorded notice of the transfer.

The BOE's LEOP unit investigates and verifies changes in control and ownership reported by legal entities and transmits to each county a listing, with corresponding property schedules, of the 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 detailed information pertaining to the counties in which they have property, the assessor's parcel numbers, or how many parcels they own. Because of lack of reliable data provided by the entities, the LEOP unit advises assessors to thoroughly research each named entity's holdings to determine that all affected parcels are identified and properly appraised.

Between January 1, 1996 and January 1, 2002, the BOE's LEOP unit has notified the assessor of 81 changes in control involving 382 properties. We found that the assessor properly reviews such transfers and reappraises the properties when appropriate.

Direct Enrollment

Direct enrollment is a program used in many assessors' offices for enrolling uncomplicated transfers of properties. The assessor has established the following criteria for properties to be eligible for direct enrollment in Fresno County:

- The transfer must involve a 100 percent transfer of all property rights;
- The deed must show a transfer tax based upon the full sales price;
- The sale price must be less than \$1,000,000; and
- The sale price must exceed the current assessed value.

The supervising appraiser for the residential division oversees the direct enrollment program within the county. The direct enrollment program is effectively administered.

Improvement Bonds

Improvement bonds are a form of public financing associated with land improvements that generally enhance the land's value. For an assessment district to obtain this type of financing, land benefiting from the improvements must be pledged as security for repayment of the loan. As a lien against the land, the improvement bond is an obligation that must be assumed by the owner of record or any successors in interest.

Fresno County's 1915 Act improvement bonds have an outstanding principal balance of \$1,281,821. Each year, the auditor-controller's office supplies the assessor with a list of all parcels encumbered by outstanding bonds. The amounts of the bond balances are entered into the assessor's computer database.

RECOMMENDATION 8: Document the validity of adding the present worth of the outstanding balance of the improvement bonds to the nominal selling price of land as provided in section 110(b).

The assessor adds the present worth of the unpaid improvement bond to the selling price when establishing a new base year value for the sold property.

Section 110(b) provides a rebuttable presumption that the value of improvements financed by bonds is reflected in the total consideration, exclusive of that bond amount, involved in the transaction. This presumption may be overcome if the assessor establishes, by a preponderance of evidence, that all or a portion of the value of these improvements is not reflected in that consideration. Assessors' Handbook Section 502, *Advanced Appraisal*, states that the amendments of section 110(b) preclude a cash equivalent adjustment to a purchase price unless there is a preponderance of evidence sufficient to overcome the presumption that the value of improvements financed by proceeds of a bond is already reflected in the total consideration paid for a property. The assessor has not developed the evidence necessary to overcome the presumption that improvement bond balances should not be added to the selling price of land. As a result, his practice may overassess land encumbered with such bonds.

We recommend the assessor comply with section 110(b) and add improvement bond amounts to selling prices only when he has evidence to overcome the presumption.

New Construction

Section 71 requires the assessor to determine the full cash value of newly constructed real property as of its date of completion, or on each lien date while construction is in progress. When the assessor appraises completed new construction at full cash value, a new base year value is created for the newly constructed portion. Rule 463 governs the assessment of new construction. Additionally, Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6, provides further guidance for new construction.

The assessor discovers most new construction activity from building permits. For the 2001-02 fiscal year, he received about 15,800 permits from 16 permit-issuing agencies. The following table illustrates the assessor's building permit activity for the past five years:

Year	Total Permits	Permits Culled	Permits Worked
2001-02	15,846	7,049	8,797
2000-01	14,918	6,545	8,373
1999-00	12,809	4,763	8,046
1998-99	12,388	5,000	7,388
1997-98	11,636	4,416	7,220

The Fresno County Department of Environmental Health (DEH) issues permits for wells and septic tanks. The number of DEH permits issued is not included in the above table.

Processing

Two office assistants review and screen all permits received from the various issuing agencies. Permits that represent nonassessable new construction are culled. These include re-roofs, replacement water heaters, temporary power poles, or other maintenance and repair items. The remaining permits are keyed into the computer system and documented on the appraisal record.

The assessor sends self-reporting questionnaires for commercial permits indicating job costs of up to \$100,000, and all residential additions, alterations, and repairs, regardless of permit value. Permits for commercial new construction in excess of \$100,000 and new residential buildings are forwarded to the appraisal staff for processing and enrollment. The assessor estimates a return rate of approximately 50 percent on self-reporting questionnaires.

Permits for signs are given to the business property division. A senior commercial appraiser or a supervising appraiser reviews building permits for tenant improvements and decides which division should handle the permit.

Valuation

The assessor compares the reported construction cost on the questionnaire to costs based on the Marshall Swift Valuation Service. If the two cost indicators are comparable, the assessor enrolls the reported costs. If they are not comparable, the assessor utilizes either the market approach to value or the income approach to value to establish the value of the new construction.

We reviewed the following areas of the assessor's new construction program: the building permit handling process, coordination of building permits between real property and business property, documentation of appraisal files, factoring, valuation techniques, and the supplemental assessment of new construction. We found no problems. Assessments of new construction in Fresno County are well documented and processed properly.

Supplemental Assessments

Section 75 et seq. require the assessor to appraise property at its full cash value on the date the property changed ownership or upon completion of new construction. A supplemental assessment(s) is issued for the increase or decrease in assessed value resulting from the change in ownership or new construction. The supplemental assessment is a prorated assessment that covers the portion of the fiscal year remaining after the date of change in ownership or new construction.

After an appraiser determines a new base year value for the change in ownership or new construction, the technical support unit reviews the value and enters the new base year value and event date into the assessment program and the supplemental value is calculated. This program calculates and prorates the majority of the supplemental assessments; but complex assessments, such as fractional changes in ownership, are manually calculated and then forwarded to the support unit for entry into the computer system.

Notices of Supplemental Assessments are automatically printed by the computer program and are reviewed by the appraisal support staff prior to the mailing of the notice to the taxpayer. Two notices are printed for each assessment, one for the taxpayer and one for the appraisal file.

We found that supplemental assessments are being processed timely and accurately.

RECOMMENDATION 9: Supplementally assess all qualifying changes in ownership and new construction.

This is a repeated recommendation from our prior survey. Without legal authority, the assessor continues to cancel some small supplemental assessments that will generate tax bills of less than \$10. Although these small assessments are cancelled from the supplemental assessment roll, they are added as a lien date adjustment to the regular assessment roll.

Section 75.41(d) allows the county auditor to cancel any supplemental tax if the total tax due is \$20 or less. In addition, section 75.55(b) allows the board of supervisors to adopt an ordinance that authorizes the assessor to cancel supplemental assessments when the resulting taxes would be \$20 or less, and supplemental assessments on manufactured home accessories where the taxes are \$50 or less.¹³

The board of supervisors has not adopted a resolution authorizing the assessor to cancel small supplemental assessments. Until the board takes such action, we recommend that the assessor enroll all supplemental assessments for changes in ownership and new construction.

Declines in Value

Section 51 requires the assessor to enroll the lesser of either a property's factored base year value or its full cash value, as defined in section 110. When a property's current market value falls below its factored base year value on any given lien date, the assessor must enroll that lower

¹³ Status. 2002, chapter 775 (SB 2092), effective January 1, 2003, increased the \$20 limitation to \$50 and eliminated the reference regarding manufactured home accessories.

value as the taxable value for that property. If, on a subsequent lien date, a property's value rises above the factored base year value, then the assessor must enroll the factored base year value as the taxable value.

The assessor currently monitors over 30,000 parcels that are assessed at market value rather than factored base year value. This significant part of the assessor's workload represents approximately 12 percent of the total number of parcels on the secured roll.

Taxpayer requests, appeals hearings, or the appraisers' knowledge of their assigned areas typically initiate the decline-in-value review process. Once a decline-in-value assessment is enrolled, the property is annually reviewed and the value is adjusted as required.

RECOMMENDATION 10: Include the information required by section 619(c) on the value notice.

When the assessor increases a market value that is less than the factored base year value, he sends the property owner a section 619 notice of value increase. We found that the assessor's notice does not include all of the information required by statute.

Section 619(c) requires that when a decline-in-value assessment increases from the prior year, a notice of the increase must be sent to the assessee. The notice must include both the base year value of the property, compounded annually by the appropriate inflation factors and the current full value. The notice of value sent to the assessee shows only the current assessed value. By omitting this information from the notice, the assessor fails to conform to statute and the taxpayer is not aware of all the information concerning the property's assessment.

We recommend the assessor include the factored base year value on the section 619 notice.

California Land Conservation Act Property

Agricultural preserves may be established by a city or county pursuant to the California Land Conservation Act (CLCA) of 1965 for the purpose of determining boundaries of areas in which the city or county is willing to enter into contracts with property owners. Property owners in an agricultural preserve who choose to enter into a contract to restrict the use of their lands for agriculture and compatible uses do so in exchange for assessment at a restricted value. Lands under such contracts are valued for property tax purposes by a methodology based upon agricultural income-producing ability, including income derived from compatible uses (e.g., hunting rights and communications facilities). These lands are assessed at the lowest of the restricted value, the current market value, or the factored base year value. Sections 421 through 430.5 govern the assessment of land subject to agricultural preserve contracts. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* provides BOE-approved guidance for the appraisal of these properties.

For the fiscal year 2002-03, the County of Fresno had approximately 1.58 million acres assessed at \$1,250,742,350 under CLCA contract. A total of 84 parcels, or 14,944 acres, are in nonrenewal status.

In addition, the county has 83 parcels (approximately 16,000 acres) under Farmland Security Zone (FSZ) contracts, a more restrictive form of CLCA contract. The total assessed value for FSA properties for 2002-03 was slightly less than \$13 million. The county also has 71 acres subject to open-space easements and 4 acres subject to scenic restrictions.

In our 1999 survey, we recommended that the assessor develop written CLCA practices and procedures. The assessor implemented our recommendation and the staff now has formal policies and procedures for the assessment of CLCA properties.

Valuation of CLCA Property

The valuation of CLCA properties is the responsibility of the real property appraisal unit. To ensure assessment uniformity, all restricted living improvements are valued by one appraiser and reviewed by a senior real property appraiser and/or the supervising appraiser.

Income and Expenses

In valuing property subject to a CLCA contract, the income to be capitalized is the economic net income attributable to the land determined, whenever possible, by the analysis of rents received in the area for similar lands in similar use. To determine net income, the appraiser must estimate the future gross income the land can be expected to produce and subtract the allowable cash expenses (except property taxes) necessary to maintain this income. The gross income is primarily from agricultural production, but it also includes income from any compatible uses actually occurring, such as lease payments for oil or gas exploration rights, communication facility sites, and recreational uses such as hunting or fishing. There are no limits placed upon the income to be capitalized unless the contract contains a provision establishing a minimum annual income per acre.

Since the income to be capitalized in the valuation of open-space properties is the net income attributable to the land, the expenses necessary to maintain this income and the portion of the income attributable to improvements must be subtracted from the expected gross income prior to capitalization. The type of expenses deducted, and to some extent the amount of the deductions, will depend upon the composition of the gross income. For example, a gross economic income derived from cash rents will generally require fewer adjustments than a gross income derived from share rents. Further, while a management charge is generally applicable to both income streams, this charge will normally be less in cash rental analysis. In addition to the expenses that are incurred for the creation and maintenance of the income, the property owner is entitled to a fair return on the value of the improvements that are necessary to produce the income and the return of (recapture) the value of such improvements.

Annually, the assessor sends questionnaires to the owners of CLCA properties. The questionnaires request information about crop production, agricultural rents and compatible use income. The assessor estimates that approximately 75 to 80 percent of the forms are completed and returned.

The assessor also obtains relevant information from the county's agricultural crop report, the grape crush report, and assessors' offices in neighboring counties.

Capitalization Rates

Section 423(b) prescribes the composition of the capitalization rate to be used in determining CLCA-restricted land values. It requires that the capitalization rate shall be the sum of the following components:

- An interest component annually determined and announced by the BOE;
- A risk component based on the location and characteristics of the land, the crops to be grown thereon, and the provisions of any lease or rental agreement to which the land is subject;
- A component for property taxes; and
- A component for amortization of any investment in perennials over their estimated economic life when the total income from land and perennials other than timber exceeds the yield from other typical crops grown in the area.

After the assessor inputs current capitalization rates and income data, the assessor's computer system automatically calculates the restricted values and compares the restricted values with the factored base year value and the current market value. The lesser of the three values is enrolled as the taxable value. The assessor treats residences and home sites on CLCA land as a separate appraisal unit as provided in section 428.

In our prior survey, we recommended that the assessor relate a risk component in the CLCA capitalization rate to water availability. Because of modern irrigation improvements, no specific area in Fresno County has a greater or lesser availability of water. In only one area is the risk rate adjusted from the assessor's standard risk rate. The soil in this area is contaminated with high levels of selenium. In our review of the assessor's appraisal records, we were unable to identify any problems with the assessor's determination of the risk rate within the capitalization process.

Taxable Government-Owned Property

Article XIII, section 3 of the California Constitution exempts from property taxation any property owned by local governments, except as provided in section 11. Section 11 of article XIII of the California Constitution provides that land, and the improvements thereon, located outside a local government agency's boundaries are taxable 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.

Fresno County has 117 taxable government-owned properties enrolled with a total 2002-03 value of nearly \$6 million. All taxable government-owned properties are identified by the special land use code "PUB."

We found that the assessor is generally following proper procedures for the assessment of taxable government-owned properties. However, we did note one area in which the assessor is not in full compliance.

RECOMMENDATION 11: 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 that change ownership to be their current market value, without considering the restricted value as of the date of sale.

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 (1) fair market value or (2) value determined according to a formula provided in section 11, as of the date of change in ownership. In most cases, the value determined under the formula (i.e., the "restricted value") will be lower than the current market value. By not considering the restricted value in establishing the base year value, the assessor will in most cases enroll a taxable value that exceeds the statutory maximum.

We recommend that the assessor establish new base year values for taxable government-owned properties, following changes in ownership, at the lower of current market value or the restricted value.

Timberland Production Zone Property

Land zoned Timberland Production Zone (TPZ) is assessed in accordance with special TPZ site classifications that exclude the value of the standing timber. The assessed value of TPZ land each year must be its appropriate site value plus the current market value of any existing, compatible, nonexclusive uses of land. These special assessment limitations do not apply to structures on TPZ lands or to reasonable site values for such structures. In other words, structures and supporting lands are subject to the same assessment treatment as other real property. Land zoned as TPZ that is not under a California Land Conservation Act contract is assessed at the lowest of its appropriate site value, current market value, or factored base year value.

Fresno County has 21 parcels of land that are classified as TPZ, totaling 1,506 acres. The total assessed value of the TPZ lands is \$735,424. All of the acreage is within the Pine-Mixed Conifer Region. The following table indicates the TPZ lands by site classification for the most recent year:

Site Class	Acres
I	717
II	507
III	144
IV	----
V	130
Homesites	8
Total	1,506

Overall, we found that the assessor is conscientious in the assessment of TPZ lands. However, one area needs improvement.

RECOMMENDATION 12: Send questionnaires to Timberland Production Zone property owners to discover existing, nonexclusive compatible uses.

We found that the assessor values permitted exclusive uses such as residential homesites, but there is no systematic canvassing of TPZ landowners to determine where existing, compatible, nonexclusive uses exist. These uses may include hunting, grazing, camping, and other uses.

Section 435(a) requires assessors to value timberland according to the restricted site value schedules expressed in section 434.5, plus the market value of any existing, compatible, nonexclusive uses of the land. The assessor must determine the current market value of these nonexclusive uses annually and add that value to the restricted TPZ site class value.

Failing to canvass TPZ parcels for compatible uses means that the value of any such existing compatible uses will escape assessment. We recommend that the assessor contact TPZ landowners to discover all existing, compatible, nonexclusive uses.

Possessory Interests

A taxable possessory interest (PI) is a possession, or a right to possession, of publicly owned real property, where the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. In the case of a taxable possessory interest, the assessment is based on the value of the rights actually held by the possessor; the rights retained by the public owner are not taxable.

The assessor discovers taxable possessory interests through public agency lists, recorded documents, business property statements, and appraisers' observations. Ninety-eight government agencies within Fresno County report PI's to the assessor. The 2002-03 assessment roll contains approximately 1,150 taxable PI's.

For each lien date, the assessor sends a summary of the prior year's assessments, also known as a usage report, to each respective agency. The agencies are requested to update the report by adding new users of real property and deleting uses that have been terminated. For new possessory interests, the assessor requests the agency to complete the usage report with the details of the interest held, a description of the used property, term of occupancy, and the rental amount. Typically, the government agencies are cooperative and responsive.

In our prior survey, we made several recommendations regarding taxable PI's. The assessor has implemented some of the recommendations. First, he is currently adding the present worth of future contract rents to PI equity selling prices. Second, the assessor is no longer discounting PI values for lack of liquidity. In addition, documentation on the PI assessment records has been improved. Finally, the assessor has revised his assessment of the cable television PI to include anticipated rate increases in income projections when using a discounted cash flow capitalization technique. Thus, when the large cable television franchise was subject to a change in control in August 2000, the assessor revalued the PI in public land. The valuation is based on projected future cash flows that varied for each municipality where the franchise had been granted.

Despite these advances, we discovered areas where the assessor can still improve his PI program. Some of these areas were covered in recommendations made in our prior survey.

RECOMMENDATION 13: Determine a reasonably anticipated term of possession according to rule 21 when valuing possessory interests.

In our prior report, we recommended the assessor improve his PI assessment program by using a reasonably anticipated term of possession. We found that the assessor is still using a three-year term of possession for airport hangars, when typical tenancies approximate 10 years. An appropriate reasonably anticipated term of possession would be 10 years as evidenced by a BOE survey of local airports.

Rule 21(d)(3) states that a taxable PI that runs from month to month should be deemed to be a taxable PI with no stated term of possession. Therefore, we recommend that the assessor establish a reasonable term of possession that actually reflects the current intent of the public owner and the private possessor.

RECOMMENDATION 14: Use BOE approved capitalization techniques when valuing short-term possessory interests.

In our prior survey report, we recommended that the assessor use BOE-approved capitalization techniques when valuing PI's.

The assessor's program of valuing PI's that have a term of possession of one year or more does include the use of approved capitalization techniques. However, the assessor is still using the annual gross rent for the PI value of short-term possessions. No attempt is made to determine a reasonably anticipated term of possession, nor is the rental income properly capitalized into an indicator of value using recognized capitalization techniques.

Implementation of recommendations 13 and 14 will effectively bring the assessor's program into compliance with our previous recommendation made in our prior survey. Therefore, we recommend that the assessor use BOE-approved capitalization techniques when valuing short-term PI's.

RECOMMENDATION 15: Apply economic rents when valuing possessory interests.

We found that the assessor uses outdated rents in valuing T-hangars at a local public airport. The individual hangar assessments have remained unchanged for 15 years. The assessor's records document that the contract hangar rents have increased significantly during that time. However, the assessor does not value the PI using the economic rent at the end of the reasonably anticipated term of possession.

Rule 8 requires the use of economic rent when applying the income approach to value. And, section 61(b)(2) states that a renewal or extension of a PI during the reasonably anticipated term of possession used by the assessor can not be considered as a change in ownership until the end of that term. The assessor has assigned a reasonably anticipated term to these month-to-month interests. At the end of this term, he must recognize a change in ownership, establishing a new base year value and a new reasonably anticipated term of possession for these interests. In

establishing the new base year value, the assessor should consider the current market rents, expenses, and other factors that may influence the assessed value.

The assessor has not recognized the increase in economic income, likely resulting in underassessment of these PI's. We recommend that the assessor use current economic rents when reviewing PI's at public airports.

Leasehold Improvements

Leasehold improvements are all improvements or additions to leased property that have been made by the lessee. Leasehold improvements include structure items and fixtures paid for by the lessee. Improvements installed by the tenant or lessee can be secured to the real property or assessed to the tenant on the unsecured assessment roll.

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

When real property is reported on the business property statement, 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 avoid escapes and double assessments. The assessor's office 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.

Copies of Schedule B of all annual business property statements reporting structure costs are forwarded to the real property appraisers for review. The real property division reviews the tenant improvements and either values the reported items or refers the reported items back to the business property division for valuation. As we reported in our prior survey, all tenant improvements are assessed to the owner of the land and building, except those in certain shopping centers. Those tenant improvements are assessed as Trade Fixture Improvements (TFI) on the unsecured roll. Communication between the two divisions is accomplished by using an *Appraisal Procedure Memorandum* form with copies of building permits or business property statements applicable to the tenant improvements.

We reviewed the assessment of leasehold improvements enrolled on both the secured and unsecured rolls. We found good communication between the business property and real property staff. Records were well documented, improvements appear to be properly classified as structure or fixture, and are assessed to the proper individuals. We found no problems with the leasehold improvement assessment program.

Water Company Property

Water company property assessed on the local tax roll may include private water companies, mutual water companies, and portions of government-owned water systems. Each type presents different assessment problems.

Municipal Water Systems

Article XIII, section 3(b) of the Constitution of California exempts from taxation property owned by a local government and located within its boundaries. This includes both property owned by city water departments and located within city limits, and property owned by water districts located within the water district's boundaries.

When the water system property is located outside of the government agency's boundaries, this exemption does not apply. Article XIII, section 11 of the California Constitution provides that publicly owned property (including a water system) located outside its boundaries is taxable if it was taxable at the time it was acquired. Taxable government-owned property is discussed in a separate section of this survey. We found that the parcels in Fresno County owned by municipal water systems and located within the city limits or district boundaries are properly exempted from taxation.

Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost, to be used primarily by its stockholders or members. When incorporated, the association can enter into contracts, incur obligations, own property, and issue stock. However, if not incorporated, it can only do these things in the names of the members. Corporations organized for mutual purposes are not subject to regulation by the California Public Utilities Commission (CPUC) unless they deliver water for compensation to persons other than stockholders and members.

RECOMMENDATION 16: Obtain articles of incorporation for all mutual water companies.

We were able to identify seven mutual water companies within Fresno County. There was little documentation included within the assessor's appraisal files. The assessor has not obtained copies of the articles of incorporation or other basic documents for any of the mutual water companies in the county.

To properly allocate the system's value, the assessor must know whether ownership shares in the company are appurtenant to the land parcels served by the water system. Without this data, it is very difficult to determine the proper taxable value of a mutual water company. In situations in which shares are appurtenant to the land, the value of the mutual water company assets are usually assessed with the land with minimum values assigned to the mutual lands, improvements, and delivery system. If the value of the mutual water company assets is assessed with the land, then a separate assessment of the mutual water company assets may cause a duplicate assessment.

However, if part of the value of the mutual water company resides in land owned by the company to which shares are attached, then part of the value may exist as an independent entity. In addition, a company may have retained some shares and the right to water that they represent instead of distributing all of the shares to the mutual service area. Over the course of time, the company may serve customers outside of the mutual service area. These customers will not acquire shares, but will pay the company the going rate for water. The assessor should analyze the income received by a mutual water company from non-mutual operations. The net income from such operations should be capitalized into a value that is attributed to the company itself, above and beyond the value of the land which it serves. A more in-depth discussion of the valuation of mutual water companies can be found in Assessors' Handbook Section 542, *Assessment of Water Companies and Water Rights*.

We recommend that the assessor gather the following information on each mutual water company in the county: articles of incorporation with amendments; bylaws; a list of all parcels served, complete with owners' names; and a list of the parcels, improvements, and distribution systems owned by the company. Having this information on file will help ensure proper assessment of each mutual water company.

Private Water Companies

Private water companies are privately owned utilities in business to earn a profit from the sale of water. This type of water company is subject to regulation by the CPUC and must submit reports annually to the CPUC. The CPUC regulates the rates charged by private water companies, with profits being limited to a return on the company's unamortized investment in plant and equipment. Because the earning ability of a regulated private water company is tied to the company's "rate base," the current market value of the water company property may be adversely affected by this restriction on earning ability. Because of these restrictions, the historical cost less depreciation (HCLD) approach is often the preferred approach to value.

RECOMMENDATION 17: Enroll the lower of fair market value or factored base year value for water company property.

This recommendation is repeated from our 1999 survey. We found that the assessor periodically recalculates the HCLD and enrolls the new cost indicator for the improvement value. The land is assessed at its factored base year (FBYV).

Section 51(d) states that the appraisal unit is that unit that the marketplace commonly buys and sells as a unit. 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. To enroll the FYBV of the land and the current market value of the improvements is inappropriate.

We recommend that the assessor enroll the lower of fair market value or factored base year value for water company property.

Pipeline Rights-of-Way

Intercounty pipeline rights-of-way were assessed by the BOE from approximately 1982 until 1993, when an appellate court ruled that such assessments were outside the BOE's constitutional authority. *Southern Pacific Pipe Lines Inc. v. State Board of Equalization* (1993) 14 Cal.App.4th 42. The court ruled, that while the pipelines themselves are properly assessed by the BOE, the rights-of-way through which the pipelines run must be locally assessed. Subsequent to this court ruling, the Legislature added sections 401.8 through 401.12, governing the valuation of intercounty pipeline lands and rights-of-way.

For the 2002-03 roll, there are nine different companies that have pipeline rights-of-way in Fresno County with a total assessed value of \$4,952,688. The assessor has assigned a systems procedures analyst the duty of tracking these pipelines. The analyst has developed a computerized spreadsheet in the assessor's computer database that tracks and factors each pipeline by assessee. Each company is assigned one parcel number to which the pipeline value from each tax-rate area is totaled and placed on the roll each lien date. We reviewed the current roll values and confirmed that the values have been correctly factored from their 1975 base year values.

We found that all pipeline rights-of-way in Fresno County are being valued in accordance with sections 401.8 through 401.12.

Mineral Property

Fresno County is a significant producer of oil and natural gas. Fresno County ranks fourth in the State in oil production and eleventh in gas production. The county also has several sand and gravel extraction operations. The assessor uses the services of a mineral consultant to value petroleum and mining properties.

RECOMMENDATION 18: Appraise mineral properties as a unit according to rule 469.

We found that the assessor is not recognizing mineral property as one appraisal unit. The assessor is combining the mineral values received from the mineral consultant with his values for improvements and equipment.

Rule 469(e)(1)(C) requires that declines in the value of the mineral property be recognized when the market value of the appraisal unit (i.e., land, improvements including fixtures, and reserves excluding the value of leach pads, settling ponds, and tailings facilities) is less than the adjusted base year value of the same unit. The practice of summing the independently developed values for minerals, improvements, and equipment is not the same as valuing them as one appraisal unit. Failure to appraise the mineral property as a unit could result in the aggregate taxable value of the appraisal unit exceeding the value limitation of section 51.

We recommend that the components of the appraisal unit be aggregated to determine the total taxable value.

RECOMMENDATION 19: Value settling ponds as a separate appraisal unit as required by section 53.5.

We found that the assessor is not treating settling ponds used in the mining operation as separate appraisal units.

Section 53.5 requires that leach pads, tailings facilities, and settling ponds be considered as a separate appraisal unit. While this provision generally applies to gold mining operations, some sand and gravel extraction properties have settling ponds. Neglecting to treat these ponds as a separate appraisal unit could result in erroneous assessments and is contrary to a specific statutory requirement.

We recommend the assessor value settling ponds as a separate appraisal unit.

Petroleum-Producing Property

Rule 468, subdivision (a) specifically provides that the right to remove minerals from the earth is a taxable real property interest. Changes in the recoverable amounts of minerals will change the value of that interest. Proved reserves are defined and the steps to ensure that property values are estimated in accordance with article XIII and article XIII A of the California Constitution are detailed.

Pursuant to rule 468, the base year value for proved reserves must be adjusted annually to account for production and other changes to proved reserve numbers, and new construction and equipment removal must also be recognized.

In our 1999 survey report, we recommended the assessor establish correct base years for the valuation of petroleum properties. The files reviewed for this survey did not indicate a problem with respect to base year values.

RECOMMENDATION 20: Account for abandonment expenses at the end of the economic life of petroleum-producing property.

This was a prior recommendation. Instead of recognizing abandonment expenses in the last year of the cash flow analysis, the assessor's consultant defers this expense for one or two years after production ends on the property.

This issue was specifically addressed by the BOE when drafting Assessors' Handbook Section 566, *Assessment of Petroleum Properties*. The handbook provides that these costs should be included in the cash flow in the last year that there is production, rather than deferred. Another method of accounting for abandonment cost is through the annual deduction from income based on a sinking fund factor. By deferring this cost, the assessor is overvaluing the property.

Whichever method is employed by the assessor, we again recommend the assessor appropriately account for abandonment expenses.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

Audit Program

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

The assessor's audit production for the last five years can be summarized as follows:

FISCAL YEAR	TOTAL AUDITS COMPLETED	ESCAPES \$(000)	REFUNDS \$(000)	NET CHANGE \$(000)
2001-02	468	\$134,134	\$ 37,643	\$ 96,490
2000-01	435	88,601	74,670	13,931
1999-00	604	163,385	85,618	77,766
1998-99	571	158,297	47,486	110,810
1997-98	<u>669</u>	<u>154,787</u>	<u>38,199</u>	<u>116,588</u>
TOTAL	2,747	\$699,204	\$283,616	\$415,585

Mandatory Audits

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

The assessor has a total workload of approximately 1,550 mandatory audit accounts, or an annualized workload of about 387 audits each year. Mandatory audit production for the last five years can be summarized as follows:

FISCAL YEAR	MANDATORY AUDITS COMPLETED
2001-02	300
2000-01	273
1999-00	329
1998-99	314
1997-98	333

In our prior survey, we recommended that the assessor improve the audit program by adopting a consistent policy for determining the years to be audited. Our review of completed audits indicates that the assessor has implemented such a consistent policy.

Statute of Limitations

Section 532 requires that the assessor enroll an escape assessment discovered during an audit within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed time, the assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

For those audits that have not been completed timely, a signed waiver of the statute of limitations is on file with the assessor.

Nonmandatory Audits

A nonmandatory audit program serves several purposes in the assessment of personal property. Besides helping to mitigate taxpayer reporting errors, a nonmandatory program also allows for the investigation and resolution of special problems uncovered during the processing of property statements. The business property division is proactive in its approach to nonmandatory audits, as evidenced by the number of audits completed shown on the following table:

FISCAL YEAR	NONMANDATORY AUDITS COMPLETED
2001-02	168
2000-01	162
1999-00	275
1998-99	257
1997-98	336
TOTAL	1,198

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 audited amounts, an analysis of expense accounts, and an analysis of depreciation and obsolescence factors that may affect the business property.

Rule 191 states that the purpose of the audit is to collect data relevant to the determination to taxability, situs, and value of property.

We reviewed 17 randomly-selected audits that have been completed by the assessor. The audit forms, format, and checklists were uniform and well designed. The assessor's research and approach to the audit were consistent, reasonable, and complete for all audits that we reviewed.

In our 1999 survey report, we recommended that the assessor not net multiple years' audit changes. The assessor has not implemented our recommendation.

RECOMMENDATION 21: Enroll the audit results for each year of a multiple-year audit.

The assessor continues to net audit results for multiple years. The assessor offsets any underassessments with overassessments for the four years that are audited and enrolls the net amount for the most recent year. The assessor's audit report includes the notation "no material differences after netting;" such audits are treated by the assessor as a "no change in value" audit.

Section 531 requires that, if any property belonging on the local roll escapes assessment, the assessor shall enroll the property on discovery at its value on the lien date for the year in which it escaped assessment. When incorrect assessments are discovered as a result of an audit, section 533 requires that tax refunds be an offset against proposed tax liabilities, including accumulated penalties and interest. The statute provides only for an offset of tax refunds against tax liabilities from different tax years. Calculations are the responsibility of the county auditor, not the assessor.

Business Property Statement Program

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

The number of business property statements processed by the assessor in the last four years and the dollar volume of the statements processed is shown in the following table:

YEAR	TRADE FIXTURES	PERSONAL PROPERTY	TOTAL COUNT	TOTAL VALUE
<u>2002-03</u>				
Secured	\$ 970,758,500	\$1,054,318,090		\$2,025,076,590
Unsecured	<u>718,563,500</u>	<u>1,377,629,416</u>		<u>2,096,192,916</u>
Total	\$1,689,322,000	\$2,431,947,506	72,517	\$4,121,269,506
<u>2001-02</u>				
Secured	\$ 977,080,700	\$1,012,670,990		\$1,989,751,690
Unsecured	<u>617,300,600</u>	<u>1,353,832,548</u>		<u>1,971,133,248</u>
Total	\$1,594,381,300	\$2,366,503,538	74,828	\$3,960,884,938
<u>2000-01</u>				
Secured	\$866,632,500	\$ 984,359,320		\$1,850,991,820
Unsecured	<u>563,422,400</u>	<u>1,288,133,292</u>		<u>1,851,555,692</u>
Total	\$1,430,054,900	\$2,272,492,612	74,930	\$3,702,547,512
<u>1999-00</u>				
Secured	\$ 867,543,500	\$ 954,490,545		\$1,822,034,045
Unsecured	<u>523,084,800</u>	<u>1,217,493,545</u>		<u>1,740,578,345</u>
Total	\$1,390,628,300	\$2,171,984,090	76,216	\$3,562,612,390

The following table gives a further breakdown by categories of businesses:

DESCRIPTION	2002-03	2001-02	2000-01	1999-00
General Business	20,274	19,028	19,860	20,160
Agriculture	13,674	14,134	14,244	14,351
Apartments	1,039	2,981	2,993	3,004
Direct Billing	9,829	9,983	10,422	11,854
Financial	339	330	342	343
Leased Equipment	7,632	8,320	7,111	6,720
Service Stations	487	495	486	481
Other	19,243	19,557	19,472	19,303
Total	72,517	74,828	74,930	76,216

The table indicates a significant drop in the number of apartment business property statements from 2001-02 to 2002-03. The assessor discontinued assessing personal property for all

apartment properties of fewer than eight units. The assessor stated that the value of the personal property for these properties is not significant enough to justify the cost of assessing it. The assessor has no authority to stop assessing such property. This issue is discussed in the low-value property section of this survey report.

We reviewed the assessor's property statement processing procedure and, except for not assessing low-value properties, we discovered no problems with policies or procedures. We found clear written procedures detailing the processing of business property statements. Discovery of taxable business property appears to be adequate, signature requirements are met, and only certified appraisers make value judgements in the appraisal of reported business property. Late filing penalties, as required by section 463, are correctly entered on the records.

Business Equipment Valuation

Commercial, Industrial, and Agricultural Equipment

Assessors' offices use business property value factors that are derived by combining cost index factors (trend factors) with percent good factors for the valuation of machinery and equipment. Section 401.5 provides that the BOE shall issue information that, in the judgment of the BOE, will promote uniformity in appraisal practices and in assessed values throughout the state. Pursuant to that mandate, the BOE annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581).

The assessor has adopted the price indices and depreciation tables recommended by the California Assessors' Association (CAA). We found that the assessor's valuation factors were accurate, with the exceptions presented in the following recommendations.

RECOMMENDATION 22: Use the AH 581 tables as intended.

The assessor uses minimum valuation factors in the valuation of older machinery and equipment without market data to support the practice. In addition, he uses averages of the index factors found in Table 3 of the AH 581 to value all classes of agricultural and construction mobile equipment.

In valuing agricultural and construction mobile equipment, the assessor should use the appropriate index factors, in Table 3, based on the type of equipment being appraised rather than applying an average of the factors for both property types. Additionally, the use of minimum valuation factors is not good appraisal practice; use of such factors may value some equipment correctly, but may overvalue or undervalue other equipment.

To value agricultural and construction equipment, AH 581 states that Table 3 should be used with Table 5.

The assessor's practice results in overassessment of older machinery and equipment as well as generally inaccurate valuations of agricultural and construction mobile equipment. We recommend the assessor use the AH 581 as intended, without applying an arbitrary minimum percent good to business property that has exceeded its average service life, and that he discontinue averaging index factors for agricultural and construction mobile equipment.

RECOMMENDATION 23: Correctly identify agricultural and construction machinery and equipment and value using the appropriate "new" or "used" percent good factor.

When the taxpayer does not report whether the equipment was purchased new or used, the assessor's policy is to assign percent good factors to agricultural and construction mobile equipment as though the equipment was acquired by the assessee in used condition.

Table 5 in AH 581 identifies a pattern of depreciation for three groups of equipment: (1) construction mobile equipment, (2) agricultural mobile equipment - except harvesters, and (3) agricultural mobile equipment - harvesters. Within each group, two columns of percent good figures ("new" and "used") are listed. Accurate assessments depend on the proper choice and application of these tables. The assessor should try to determine whether the machinery and equipment is new or used, then apply the appropriate factor from the AH 581.

We recommend that the assessor determine whether agricultural machinery or equipment and construction machinery or equipment is new or used before assigning a valuation factor for appraisal purposes.

Computer Valuation

In order to promote uniformity in appraisal practices and assessed values and to comply with the requirements of section 401.5, the BOE issued valuation factors for computer equipment. In AH 581, Table 6: Computer Valuation Factors, the BOE provides valuation factors for use when valuing computer equipment.

We found that the assessor properly values computers using the BOE-recommended factors.

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 determination of taxable situs, reporting errors by lessees and lessors, taxability, valuation (whether the value of the equipment should be the lessor's cost or the cost for the consumer to purchase), and double or escape assessments resulting from lessor and lessee reporting. These issues are discussed in detail in Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*.

We reviewed several business property assessments of companies that own equipment that is leased or rented to others. We found that the assessor's procedures of assessment are well administered and the assessor's written policy for the assessment of leased equipment is concise and correct.

Aircraft

General Aircraft

Section 5363 requires the assessor to determine the market value of aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards to be used by the assessor. 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* as an alternate for aircraft not listed in the *Bluebook*.

We found the assessor discovers aircraft from listings obtained from the Federal Aviation Agency (FAA) airport manager reporting on the Form BOE-577-B, *List of Aircraft*, and an annual field canvass of all airports in the county.

The Fresno County Assessor's office assessed 659 general aircraft for the 2002-03 tax roll with a total value of \$92.7 million.

In our 1999 survey report, we recommended three changes in the assessor's program for assessing aircraft. We recommended that the assessor (1) verify the 12 days of public display for aircraft granted the exemption for historical significance under section 220.5, (2) include sales tax in the value of aircraft unless the aircraft qualifies for the sale tax exemption as a "common carrier," and (3) comply with the requirements of rule 252(a) to list general aircraft assessments in a separate section of the roll. The assessor has implemented two of the three recommendations. The assessor now randomly samples claims for exemption by verifying display events and includes sales tax in the value of aircraft unless the aircraft qualifies for the sale tax exemption as a "common carrier." However, the assessor does not list general aircraft assessments in a separate section of the roll as required by rule 252(a).

RECOMMENDATION 24: List general aircraft assessments in a separate section of the roll as required by rule 252(a).

We recommended that the assessor comply with the requirements of rule 252(a) to list general aircraft assessments in a separate section of the roll. We found that the aircraft assessments are still interspersed by account number with other types of assessments.

According to the assessor, the computer system does not allow for the listing of aircraft values in a separate section of the roll. We recommend that the assessor list general aircraft assessments in a separate section of the roll as required by rule 252(a).

Certificated Aircraft

Certificated aircraft are aircraft operated by air carriers and air taxis that are operated in scheduled air taxi operations. Unlike general aircraft, which are normally assessed 100 percent at the place where they are habitually located as of the January 1 lien date, the assessment of certificated aircraft are allocated among taxing jurisdictions based upon ground and flight time and arrivals and departures during a representative period designated by the BOE. Certificated aircraft are valued pursuant to the methodologies described in section 401.15.

The assessor correctly assesses the certificated aircraft owned by the ten commercial airline companies serving Fresno County. The total assessed value of the certificated aircraft is \$108 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 are exempt from taxation upon meeting certain requirements. Section 220.5 defines "aircraft of historical significance" as any aircraft which is an original, restored, or replica of a heavier than air powered aircraft which is 35 years or older or any aircraft of a type or model of which there are fewer than five in number known to exist worldwide.

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

There are 66 historical aircraft in Fresno County with a total value of \$2.4 million. In our 1999 survey report, we recommended that the assessor verify the 12 days of public display required for the historical aircraft exemption. The assessor now verifies the 12 occasions of public display. He continues to collect the required one-time \$35 application fee with the initial filing.

In conclusion, we found that the assessor administers the historical aircraft exemption program effectively.

Aircraft Statement

RECOMMENDATION 25: Remove the penalty statement from the aircraft statement or modify it to specify that the penalty will only be added if the taxpayer does not report the information required by statute.

The assessor uses an aircraft statement that requests more information than required by section 5365. The statement requests information regarding the aircraft manufacturer, manufacturer's serial number, model, year, FAA number, date purchased, purchase price and when the aircraft was brought into Fresno County. In addition, the taxpayer is also asked to provide data regarding avionics, portable hangars, engine(s), and other information. On the reverse side of the form, there is a statement that failure to file the form on time will result in a penalty of 10 percent as required by section 5367.

Section 5365 only requires the owner of an aircraft to provide the assessor with the make, model and year of manufacture of the aircraft. If the taxpayer does not provide these three required items, a penalty of 10 percent of the market value of the unreported aircraft shall be added to the value of the aircraft. Failure to file the supplemental information requested by the assessor does not constitute a failure to file the required information and is therefore not subject to section 5367 penalties.

We recommend that the assessor conform the aircraft statement to the requirements of sections 5365 and 5367.

Vessels

The assessor assessed 7,185 vessels on the 2002-03 roll with a total assessed value of nearly \$45 million. The assessment includes section 463 penalties applied to 319 vessels for late filing or failing to file Form BOE-576-D, *Vessel Property Statement*.

The assessor has an effective program for the discovery of vessels. The primary discovery sources are Department of Motor Vehicle (DMV) reports, marina lists, and referrals from other counties.

The assessor maintains a computerized vessel database that contains ownership data, i.e., the purchase date, the price of the vessel, the current assessed value, and a description of the vessel. The database enables users to access information on vessels by California registration number (CF number), assessor's parcel number, or account number.

In our 1999 survey of Fresno County, we recommended that the assessor use the BOE-prescribed *Vessel Property Statement* (Form BOE-576-D) in order to invoke the section 463 non-filing or late filing penalty. The assessor began using this form for the 2000-01 assessment year.

RECOMMENDATION 26: Assess all vessels at market value.

In Fresno County, vessels are initially assessed at market value using the *BUC Used Boat Guide* (BUC), the cost code assigned by the Department of Motor Vehicle (DMV) less 10 percent first year's depreciation, or the purchase price reported by the boat owner. Once the initial value is set, the assessor reduces subsequent assessments annually by 10 percent.

The law requires the assessor to assess all taxable property in proportion to its value unless there is specific statutory provision for another manner of assessment. Pleasure vessels are subject to assessment at market value. The assessor's practice causes some vessels to be assessed at greater than market value and others to be assessed at less than that.

A method that the assessor may consider is to categorize pleasure vessels into two groups (new and used) and, within each group, categorize them into six subgroups (i.e., cruiser/powerboat, sailboat, inboard, outboard, inboard/outboard, and personal watercraft). Trends in market values for these groups and subgroups could be determined by comparing published vessel valuation guides for the current and previous year. Once trend factors are computed, they should be applied to all vessels within each group and subgroup. This approach will ensure that boats with

different classes will be accurately valued at market value and not influenced by boats within other classifications.

We recommend that the assessor assess all vessels at market value.

RECOMMENDATION 27: Assess all vessels unless exempted by law.

As noted in our prior survey, the assessor exempts all vessels that have a value of less than \$1,500. The assessor's policy has not changed.

Section 228 exempts vessels that have a market value of less than \$400; however, all other vessels are assessable. The assessor's practice improperly exempts taxable property without authority. We repeat our recommendation that the assessor assess all vessels unless they are exempt under section 228.

Manufactured Homes

A manufactured home is subject to local property taxation if first sold new on or after July 1, 1980, or converted by the owner's request from vehicle license fee (VLF) to local property taxation. A manufactured home is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the valuation and assessment of manufactured homes are contained in Revenue and Taxation Code sections 5800 through 5842. Most manufactured homes are classified as personal property and enrolled on the secured roll.

The assessor's 2002-03 secured assessment roll included 6,417 manufactured homes with a total value of \$92,301,305. Included in the above numbers are 3,236 homes located in 119 manufactured home parks. The remaining homes are sited on lands other than manufactured home parks. All of the manufactured homes are properly classified as personal property.

In Fresno County, two real property appraisers process all assessments of manufactured homes in parks, while other appraisers are responsible for the valuation of manufactured homes that are located within their specifically assigned geographic areas.

The assessor discovers new and transferred manufactured homes primarily through lists routinely provided by the Department of Housing and Community Development. These lists also include manufactured homes that have been voluntarily converted from the VLF to local property taxation and manufactured homes that have been moved to new locations within the county. In addition, the assessor obtains information through dealer reports of sale, building permits, reports from owners and managers of manufactured home parks, and field inspections.

Section 5813 requires that the taxable value of a manufactured home be the lesser of its base year value, compounded by the annual inflation factor, or its fair market value as determined pursuant to section 5803. The assessor has developed a computer program that calculates declining market values each year for all manufactured homes. Four criteria are essential for the operation of the program: (1) base year value, (2) date of the latest transfer, (3) type of transaction, and (4) year of manufacture. Sales information, based on current cost guides, is stored in a computer database and is then transferred from the main database into the calculation program. A projected value is calculated for each manufactured home each year.

The assessor uses selling prices of manufactured homes and values listed in the *Kelley Blue Book Official Manufactured Housing Guide* to establish base value values for manufactured homes that have transferred. The assessor enrolls the lesser of the two indicators for the manufactured home.

During our review, we compared the assessor's values with data from the *Kelley* guide and found the assessor's values to be within the value ranges indicated by that publication.

The manufactured home assessment records we reviewed were clear, concise, and well documented. The assessor has a well-administered manufactured home assessment program.

Animals

Fresno County is a rural agricultural county with a number of assessable animals. The assessor uses Form BOE-571-F, *Agricultural Property Statement*, for taxpayer reporting of animals. Taxable animals include those that are held or used in connection with the owner's business, trade, or profession; those used to produce offspring for sale; and those with proficiency that has gained substantial monetary or other awards.

Discovery methods include intercounty communications of transfers, newspaper articles and advertisements, telephone yellow pages, business directories, animals reported on Form BOE-571-F, and audits of agricultural property.

Exemptions for animals include the pet exemption and business inventory exemption. Based on our review of several agricultural statements, the assessor properly discovers, identifies, and appraises assessable animals.

Racehorse Tax Returns

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

The assessor's records indicate that there are 1,026 racehorses with legal situs in Fresno County. The assessor lists 232 individuals, partnerships, or corporations as owners of racehorses. The assessor discovers racehorses through the use of *Annual Racehorse Tax Return* (Form BOE-571-J), telephone book listings, newspaper articles, and information from other counties.

We found no problems with the assessor's administration of the racehorse in-lieu tax.

APPENDICES

A. County Property Tax Division Survey Group

Fresno County Assessment Practices Survey

Chief, County Property Tax Division

Mickie Stuckey

Survey Program Director

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

Peter Gaffney

Supervising Property Appraiser

Survey Team Leader:

James Lovett

Senior Specialist Property Appraiser

Survey Team:

Jim McCarthy

Senior Petroleum and Mining Appraisal
Engineer

Jody Henning

Associate Property Appraiser

Bob Rossi

Associate Property Appraiser

Nick Winters

Associate Property Appraiser

Ancil Aydelott

Associate Property Auditor-Appraiser

David Barbeiro

Associate Property Auditor-Appraiser

Pam Bowens

Associate Property Auditor-Appraiser

Marilyn Jones

Tax Technician II

B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

15641. Audit of Records; Appraisal Data Not Public.

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

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

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

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

15642. Research by board employees.

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

15643. When surveys to be made.

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

15644. Recommendations by board.

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

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

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

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

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

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

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

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

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

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

(b) For purposes of this section:

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

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

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

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

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

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

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

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

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

Rule 371. Significant assessment problems .

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

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

- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
 - (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.
- (b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:
- (1) Uniformity of treatment for all classes of property.
 - (2) Discovering and assessing newly constructed property.
 - (3) Discovering and assessing real property that has undergone a change in ownership.
 - (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
 - (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
 - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the BOE a response to the findings and recommendation in the survey report. The 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

March 8, 2004

Mickie Stuckey, Chief
Property Tax Division
State Board of Equalization
P.O. Box 942879
Sacramento, Ca 94279-0062

RECEIVED

MAR 11 2004

County Property Tax Division
State Board of Equalization

Dear Ms. Stuckey:

In accordance with Section 15645 of the California Government Code, the following response to the State Board of Equalization's Assessment practices Survey of Fresno County is hereby provided.

This response details those areas where we believe improvements are feasible, notes areas of disagreement in proposals, or, in some areas, rejection where the proposal is deemed impractical or unfeasible.

Choices made by this office to accommodate reduced budgets often means some work is done with less proficiency than what would be expected if we were operating with a full staff. While I seriously consider recommendations from the survey team which address matters I can control, I do not have unilateral power over my budget. If resources were available, more and better appraisals could be done, better record management and more efficient work systems could be developed. This office will continue to search for more effective and efficient ways to accomplish our responsibilities and goals.

Sincerely,

Robert C. Werner
Fresno County Assessor-Recorder

RCW:rr

Survey Response

RECOMMENDATION 1: Update the policies and procedures manual.

We concur. An update of our divisional Policies and Procedures Manuals is underway.

RECOMMENDATION 2: Assess all property that is not otherwise exempt from taxation

We concur. A Low Value Ordinance has been prepared and will be submitted to our Board of Supervisors in 2004.

RECOMMENDATION 3: Reassess property damaged by misfortune or calamity in accordance with section 51(a)(2).

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

RECOMMENDATION 4: Use only BOE-approved rearranged forms.

We concur. While it is sometimes impossible to receive board approval prior to printing, it is our practice to receive Board approval prior to actually using Board prescribed forms.

RECOMMENDATION 5: Transmit non-prescribed forms and questionnaires in such a manner that it does not imply that the section 463 penalty applies to them.

We make an effort to clarify the reporting requirements and associated penalties for non-compliance when mailing information requests to the public. We have revised our Petroleum Statements to conform to the Board's request. However, in the current budgetary climate, it is unreasonable to expect the Assessors to do separate mailings when those mailings can be consolidated at a cost saving to the counties.

RECOMMENDATION 6: Include the escape assessment notation required by section 533 on the assessment roll.

We concur. Unfortunately, our current mainframe-based system can not accommodate the required notation to the roll. When we are able to acquire a new property system, we will make the required notation.

RECOMMENDATION 7: File quarterly reports of base year value transfers with the BOE as required by section 69.5(b)(7).

We concur. We will begin to compile the information requested and submit the quarterly reports required.

RECOMMENDATION 8: Document the validity of adding the present worth of the outstanding balance of the improvement bonds to the nominal selling price of land as provided in section 110(b).

We concur. While we are confident that our current practice is supported by the market and results in correct assessments, we have not formally compiled the specific market information to support our practice. We will compile this information in the future.

RECOMMENDATION 9: Supplementally assess all qualifying changes in ownership and new construction.

We concur. We will take Section 75.55 resolution before our Board of Supervisors for approval.

RECOMMENDATION 10: Include the information required by section 619(c) on the value notice.

We concur. This has been done and we are in compliance.

RECOMMENDATION 11: Determine the base year value of Section 11 properties at the lower of current market value or restricted value .

We concur. Our current practice conforms to this recommendation.

RECOMMENDATION 12: Send questionnaires to Timberland Production Zone property owners to discover existing, nonexclusive compatible uses.

We concur. We will periodically request information regarding compatible use from owners of TPZ properties.

RECOMMENDATION 13: Determine a reasonably anticipated term of possession according to rule 21 when valuing PI's.

We respectfully disagree. A review of PIs at the Reedley Airport done for the 2003 lien date show that the majority has a three to four year term. The Board survey reflects the terms of possession for Chandler Airport in Fresno. We are in the process of reviewing the terms of possession at Chandler.

RECOMMENDATION 14: Use BOE approved capitalization techniques when valuing short term PI's.

We concur.

RECOMMENDATION 15: Apply economic rents when valuing PI's.

We concur. We have reviewed all T-hanger PIs for 2003 to address the changes to Rule 21 and will seek to regularly review these in the future.

RECOMMENDATION 16: Obtain articles of incorporation for all mutual water companies.

We concur in part. Our current practices prevent any possibility of duplicate assessments and we believe that our assessment practices are sound. However, we will request the articles of incorporation from the identified mutual water companies in Fresno County.

RECOMMENDATION 17: Enroll the lower of fair market value or factored base year value for water company property.

We concur.

RECOMMENDATION 18: Appraise mineral properties as a unit according to rule 469.

We believe that our appraisal methodology provides an accurate estimate of the market value of the properties, which does not exceed the value limitations of Section 51.

RECOMMENDATION 19: Value settling ponds as a separate appraisal unit as required by section 53.5.

We concur.

RECOMMENDATION 20: Account for abandonment expenses at the end of the economic life of petroleum-producing property.

We believe our methodology accurately reflects the way the marketplace forecasts abandonment costs.

RECOMMENDATION 21: Enroll the audit results for each year of a multiple-year audit.

We concur. Unfortunately, our current mainframe programs make it very difficult to track and address the audit offsets from the Auditor's Office. Until this difficulty is resolved, time and financial constraints make it likely that we will have to continue our current practice.

RECOMMENDATION 22: Use AH 581 tables as intended.

We concur and will seek to implement these changes in 2004.

RECOMMENDATION 23: Correctly identify agricultural and construction machinery and equipment and value using the appropriate "new" or "used" percent good factor.

We concur. Though the 571 does not differentiate between newly acquired equipment purchased used or new, we will make our best efforts to determine this.

RECOMMENDATION 24: List general aircraft assessments in a separate section of the roll as required by rule 252(a).

We concur. Unfortunately, our current mainframe system will not accommodate this requirement. This will only be solved by a change to the rule or the acquisition of a new property system.

RECOMMENDATION 25: Remove the penalty statement from the aircraft statement or modify it to specify that the penalty will only be added if the taxpayer does not report the information required by statute.

We concur. The changes have been made.

RECOMMENDATION 26: Assess all vessels at market value.

Our initial appraisal is done by an auditor-appraiser. Subsequent assessments allow for an annual depreciation of 10%. While it is conceivable that some values could actually increase over time, it is our opinion that these situations would occur rarely, if at all. We use the BUC Book and the Blue Book as guides to our appraisal and feel are values are within an acceptable range and reflect market value.

RECOMMENDATION 27: Assess all vessels unless exempted by law.

We concur. This should be resolved with the approval of a low value ordinance by our Board of Supervisors.