

# KERN COUNTY ASSESSMENT PRACTICES SURVEY

APRIL 2010

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April 30, 2010

TO COUNTY ASSESSORS:

No. 2010/024

KERN COUNTY  
ASSESSMENT PRACTICES SURVEY

A copy of the Kern 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 James W. Fitch, Kern 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 Kern County Board of supervisors, Grand Jury, and Assessment Appeals Board.

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

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

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

Sincerely,

/s/ David J. Gau

David J. Gau  
Deputy Director  
Property and Special Taxes Department

DJG:ps  
Enclosure

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## **INTRODUCTION**

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

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

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, and the Senate and Assembly, and to the Kern County Board of Supervisors, Grand Jury, and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable James W. Fitch, Kern County Assessor-Recorder, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendixes.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys* at page 2) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

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<sup>1</sup> This report covers only the assessment functions of the 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 Code<sup>2</sup> section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

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

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.<sup>3</sup>

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

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

<sup>3</sup> All rule references are to sections of the California Code of Regulations, title 18, Public Revenues.

## EXECUTIVE SUMMARY

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

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

The assessor is effectively managing many administrative programs: budget and staffing, appraiser certification, exemptions, assessment appeals, disaster relief, assessment roll changes, low-value property exemptions, and assessment forms.

In the area of administration, we noted only two areas of concern:

- We recommended the assessor request that the board of supervisors revise the disaster relief ordinance to conform to section 170, and revise the *Application for Reassessment and/or Tax Deferral for Damaged or Destroyed Taxable Property* to conform to section 170(b).
- The assessor should enroll all escape assessments regardless of value.

In the area of real property assessment, the assessor is effectively managing programs involving these matters: new construction, declines in value, assessment of properties subject to California Land Conservation Act contracts, leasehold improvements and water company property. Four other programs have areas where improvement is needed:

- The assessor needs to apply the section 482 penalty when a Change of Ownership Statement is not returned timely.
- The assessor should assess all taxable possessory interests, periodically review all taxable possessory interests with stated terms of possession for declines in value, deduct allowed expenses from gross income when valuing possessory interests by the income approach, and revalue taxable possessory interests at the end of the reasonably anticipated terms of possession used for their assessment.
- For mineral property the assessor should adjust mineral right values to account for depletion or increases in reserves, index base year mineral right values according to section 51, and coordinate appraisal of fixtures and other business property with real property appraisals to measure declines in value on the entire appraisal unit.
- With pipeline rights-of-way the assessor should use the appropriate inflationary factor to determine the assessed value for the current year in accordance with section 410.10(1)(A).

The assessor has effective programs for business property statement processing, business equipment valuation, discovery of leased equipment, and the discovery and valuation of vessels. However, the assessor has one program where improvement is needed:

- Grant the historical aircraft exemption only to qualifying aircraft.

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

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

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

- RECOMMENDATION 1:** Revise the disaster relief program by: (1) requesting the board of supervisors to revise the disaster relief ordinance to conform to section 170, and (2) revising the *Application for Reassessment and/or Tax Deferral for Damaged or Destroyed Taxable Property* to conform to section 170(b). .....9
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- RECOMMENDATION 4:** Improve the possessory interest program by: (1) assessing all taxable possessory interests, (2) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, (3) deducting allowed expenses from gross income when valuing taxable possessory interests by the income approach, and (4) revaluing taxable possessory interests at the end of their reasonably anticipated term of possession. ....25
- RECOMMENDATION 5:** Appraise mining property according to Rule 469 by: (1) adjusting mineral right values to account for depletion, increases in reserves, or indexing, and (2) coordinate appraisal of fixtures and other business property with real property appraisals to measure declines in value on the entire appraisal unit. ....30
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## OVERVIEW OF KERN COUNTY

Kern County was created on April 2, 1866, after the discovery of oil in Bakersfield in 1865. Agriculture and oil are Kern County's largest industries. The total value of agricultural commodities produced exceeded \$4 billion in 2007, with the top five commodities being grapes, almonds, milk, citrus, and cotton.

Kern County lies in the southern end of the Central Valley. It is bordered on the north by Kings, Tulare, and Inyo counties, on the east by San Bernardino County, on the south by Los Angeles and Ventura counties, and on the west by San Luis Obispo and Santa Barbara counties. Geographically it is California's third-largest county, having an area of 8,141 square miles. The county has an estimated population of 780,117.

Kern County has 11 municipalities that cumulatively encompass more than 400 square miles. Bakersfield is the center of county government.

The following table displays information pertinent to the 2008-09 assessment roll:

ROLL TYPE	PROPERTY TYPE	NUMBER OF ASSESSMENTS	ENROLLED VALUE
<b>Secured Roll</b>	Residential	316,402	\$36,309,133,009
	Commercial/Industrial	19,856	\$15,542,991,246
	Agricultural	34,801	\$4,965,714,616
	Manufactured Homes	10,308	\$926,516,072
	Other Secured	6,958	\$21,590,826,460
	Total Secured	388,325	\$79,335,181,403
<b>Unsecured Roll</b>	Personal Property & Fixtures	29,986	\$3,243,749,992
	<b>Total Assessment Roll</b>	418,311	\$82,578,931,395

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

ROLL YEAR	TOTAL ROLL VALUE	INCREASE	STATEWIDE INCREASE
2008-09	\$82,578,931,395	8.0%	4.7%
2007-08	\$76,463,616,000	12.5%	9.6%
2006-07	\$67,988,722,000	22.6%	12.3%
2005-06	\$55,441,047,000	16.3%	11.1%
2004-05	\$47,669,791,000	N/A	N/A

## ADMINISTRATION

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

### **Budget and Staffing**

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

As shown in the following table, the assessor's budget has grown in four of the past five years:

<b>BUDGET YEAR</b>	<b>GROSS BUDGET</b>	<b>INCREASE</b>	<b>PERMANENT STAFF</b>
2008-09	\$10,055,994	-14.3%	111
2007-08	\$11,733,558	23.7%	111
2006-07	\$9,484,084	6.1%	111
2005-06	\$8,940,550	1.5%	109
2004-05	\$8,810,467	N/A	109

The assessor has several management areas within his office. The assistant assessor, administrative support section, and employment and financial service section report directly to the assessor.<sup>4</sup> The assistant assessor is responsible for the information systems section, assessment standards division, valuation support, the agriculture, commercial and residential properties division, and the special, oil and gas, and business properties division. The administrative support section includes clerical support, certification and training, and property information processing. The employment and financial services section includes financial services (budget administration, revenue collection, office operations, etc.), and employment/personnel and payroll services. The difference between the current staff count of 102 and the staff count of 111 in the table above is due to a projected staff increase of nine positions consisting of one Auditor-Appraiser, three Senior Appraisers, two Appraisers, and three Appraisal Assistants.

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<sup>4</sup> Organizational information obtained from the Kern Co. Assessor's Administrative Procedures Manual, September 1994 (Revised June 2008).

### ***Appraiser Certification***

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid appraiser's certificate issued by the BOE. There are 53 certified appraisers on staff, including the assessor; 30 hold advanced appraiser's certificates. We found that the assessor and his staff possess the required appraiser's certificates. Additionally, we found that the auditor-appraisers performing audits meet the requirements referenced in section 670(d). The assessor does not use contract appraisers.

In Kern County, the training coordinator coordinates with the various division chiefs regarding the training and certification program for appraisers and maintains a spreadsheet for tracking courses taken by the appraisal staff. Appraisers are encouraged to take the necessary courses to obtain their advanced certification as soon as possible. In addition, appraisers are required to take advanced courses in their areas of expertise.

Overall, Kern County's training and certification program is very efficient and should be commended.

### ***Assessment Appeals***

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

The Kern County appeals board consists of five members who sit on a rotating basis as a three-member panel. All members of the current board have completed the mandatory training as required by section 1624.01. Any new appointees to the appeals board must also complete the mandatory training. The county does not have any hearing officers.

The clerk of the board is responsible for providing applications for changed assessment to the public, receiving the returned applications, and providing a copy of the applications to the assessor. The assessor's staff reviews all incoming appeals and contacts the taxpayer in an attempt to resolve the disagreement. If agreement is not reached, the appeal process continues and a hearing is scheduled. The assessor reviews each case prior to staff presentation at the appeals hearing. If an appeal involves a business property audit, an auditor-appraiser prepares the case and accompanies the assessor to the hearing.

The assessor's office and the clerk of the board track the status of each appeal with a database system. The database is useful to ensure appeals are resolved in a timely manner. In the last five years, all appeals have been resolved within two years as required by section 1604(c).

The following table illustrates the appeal workload for recent years:

<b>ROLL YEAR</b>	<b>2006-07</b>	<b>2005-06</b>	<b>2004-05</b>	<b>2003-04</b>
Appeals Filed	698	695	1,038	656
Appeals Carried Over From Prior Year	1,205	793	70	740
<b>Total Appeals Workload</b>	1,903	1,488	1,108	1,396
Withdrawn	331	81	213	730
Stipulation	215	68	27	569
Appeals Reduced	2	0	0	1
Appeals Upheld	3	2	5	5
Appeals Increased	0	0	0	0
Other Determination	16	132	70	21
<b>Total Resolved</b>	567	283	315	1,326
To Be Carried Over	1,336	1,205	793	70

We reviewed several appeals records and found them concise and well documented. In our review, we found the clerk of the board and the assessor's office cooperates and communicates effectively with each other. We found the assessment appeals program fully complies with all statutory requirements.

**Disaster Relief**

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

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

Upon receipt of a properly completed application, the assessor shall reassess the property for tax relief purposes. If the sum of the full cash values of the land, improvements, and personal

property before the damage or destruction exceeds the sum of the values after the damage by \$10,000 or more, the assessor shall then determine the percentage reductions in current market value and reduce the assessed values by those percentages.

The Kern County Board of Supervisors has adopted a continuous disaster relief ordinance pursuant to section 170, which allows the assessor to give tax relief to taxpayers whose properties have been damaged or destroyed by calamity or disaster. The ordinance grants the assessor the authority to initiate reassessment without an application where he determines taxable property has been damaged or destroyed.

On a yearly basis, the assessor processes approximately 100 disaster relief claims. The assessor uses a variety of methods to discover properties that have been damaged or destroyed, including newspaper articles, building permits issued for repairs, and the appraisers' knowledge of their assigned areas.

We found two areas of the assessor's disaster relief program that need to be revised.

**RECOMMENDATION 1:** Revise the disaster relief program by: (1) requesting the board of supervisors to revise the disaster relief ordinance to conform to section 170, and (2) revising the *Application for Reassessment and/or Tax Deferral for Damaged or Destroyed Taxable Property* to conform to section 170(b).

**Request the board of supervisors to revise the disaster relief ordinance to conform to section 170.**

We found that the county's current disaster relief ordinance references an incorrect lien date and contains outdated procedures for restoring assessed values when properties are fully reconstructed.

The county's current disaster relief ordinance has not been updated to reflect changes to section 170 effective January 1, 2002. Specific changes to be updated in the county ordinance include: (1) an extension of the filing period for an application for reassessment from six months to 12 months; (2) an increase in the minimum threshold for loss in value from \$5,000 to \$10,000; (3) an increase in time given to the owner to appeal the notice of reassessment from 14 days to six months; and (4) an increase in time the assessor has to provide an application for reassessment if no application is made by the owner from six months to 12 months.

We recommend that the assessor request that the board of supervisors revise the current disaster relief ordinance to reflect the current provisions of section 170.

**Revise the *Application for Reassessment and/or Tax Deferral for Damaged or Destroyed Taxable Property* to conform to section 170(b).**

In our review of the assessor's application for disaster relief, *Application for Reassessment and/or Tax Deferral for Damaged or Destroyed Taxable Property*, we found one portion that does not conform to the language found in section 170. Specifically, the language in the application for disaster relief provides the application should be completed and returned if the damage or destruction to assessable property exceeds \$5,000. However, to conform to section 170(b), the application for reassessment should have the minimum damage threshold raised from \$5,000 to \$10,000.

The assessor's application is not in conformity with section 170 and transmits incorrect information to the taxpayer.

**Assessment Roll Changes**

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

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

The Kern County Integrated Property System (KIPS) is an interactive mainframe system that manages all taxation data in Kern County. Roll changes are made within this system.

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

ROLL YEAR	NUMBER OF ROLL CHANGES
2006-07	15,370
2005-06	12,166
2004-05	10,673
2003-04	7,393
2002-03	9,504

The primary method the assessor uses to discover escape assessments, especially for new construction is through building permits. Periodically, permit data is transmitted to the assessor from municipalities within Kern County. The assessor also uses random sampling, canvassing, and taxpayer reporting as means of discovery. All escape assessments are entered into the KIPS system by an office technician prior to being enrolled.

Appraisers and supervisors can initiate roll changes. Assessments that require correction are pulled from a queue in KIPS. All roll corrections are sent to a supervisor for review. Upon approval, this data is batched and sent electronically to the county auditor daily for further review and processing.

The county auditor has a good relationship with the assessor and his staff, facilitating a smooth correction process. KIPS prevents appraisers from mistakenly applying penalties, exemptions, and interest to unqualified property. All corrections are reviewed by appraisers, the unit supervisor, and finally the county auditor. High-value properties are checked by additional appraisers or supervisors for accuracy.

Roll changes are processed entirely in the KIPS program, categorized by job and personnel codes. Hardcopy evidence is printed directly from KIPS' queue screens.

Once a roll change has been processed, a *Notice of Proposed Escape Assessment* is printed and mailed to the taxpayer. These notices contain all the elements required by section 531.8. Taxpayers are provided 14 days to contest the value before it is enrolled, more than the required minimum of 10 days.

We reviewed the assessor's procedures for processing and enrolling escape assessments as well as a number of roll changes. All roll changes were documented with the appropriate statutory reference(s) indicating why each change was initiated. Roll changes are made within the authorized period and Notices of Enrollment of Escaped Value are sent using form BOE-66-A, *Notice of Enrollment of Escape Assessment*, immediately after enrollment. The assessor's roll correction process satisfies the notification requirements of section 534.

We found KIPS to be noteworthy because KIPS links the assessor, tax collector, and county auditor departments into one property tax management system. This allows for a seamless roll correction process. KIPS has many checks and balances incorporated into the system to ensure that all corrections are processed correctly. However, we found one area in need of improvement.

**RECOMMENDATION 2:** Enroll all escape assessments regardless of value.

We found the assessor's procedure is to not process escape assessments with a value of less than \$2,000 on the unsecured roll, or \$500 on the secured roll. Section 531.9 provides that a board of supervisors may by ordinance exempt low-value escape assessments. Kern County, however, does not have such an ordinance. Therefore, the assessor's procedures allow for the unauthorized exemption of escape assessments.

### ***Low-Value Property Exemption***

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

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

The Kern County Board of Supervisors adopted resolution 2005-524, implementing the provisions of section 155.20 effective on the January 1, 2006, lien date. The \$5,000 threshold only applies to personal property, possessory interests, and certain non-producing mineral rights. There is a separate value threshold for certain types of transitory possessory interests. The resolution determined that the low-value threshold for transitory or temporary possessory interest assessments is \$40,000.

Real property qualifying for the low-value exemption is tracked on the assessor's computer system. The computer system tracks the real property while it is in low-value exemption status. When the factored base year value of a previously exempt property exceeds the \$5,000 benchmark, the taxable value is reflected on the assessment roll.

When personal property is determined to qualify for the low-value property exemption, the appraisal record is so noted, and the property is not placed on the assessment roll.

We found no problems with the low-value property exemption program.

## ***Exemptions***

### **Church and Religious Exemptions**

Article XIII, section 3(f) of the California Constitution authorizes exemption of property used exclusively for religious worship. This constitutional provision, implemented by section 206 exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship, when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking is also exempt under article XIII, section 4(d) of the California Constitution provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1. The Legislature has implemented the religious exemption in section 207, which exempts property owned by a church and used exclusively for religious worship or for both religious worship and school purposes (excluding property used solely for schools of collegiate grade).

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

The assessor processed 202 church exemption claims and 849 religious exemption claims for the 2007-08 assessment roll.

The following table shows the number of church and religious exemptions processed by the assessor for recent years:

ROLL YEAR	CHURCH		RELIGIOUS	
	Number	Exempted Value	Number	Exempted Value
2007-08	202	\$75,734,045	849	\$352,595,490
2006-07	196	\$69,722,915	849	\$318,499,074
2005-06	198	\$69,676,935	836	\$300,882,440
2004-05	192	\$67,326,597	840	\$284,228,920
2003-04	198	\$59,521,915	858	\$300,536,196

Our current review indicates that the assessor properly processes church and religious exemption claim filings. We found no problems with the assessor's church and religious exemption program.

### Welfare Exemption

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

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

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC issued by the BOE. If the property is a low-income housing property owned and operated by a limited partnership, which has a qualified organization (OCC holder) as the managing general partner, then it must also hold a valid *Supplemental Clearance Certificate* (SCC) issued by the BOE. However, the assessor may deny an exemption claim, based on non-qualifying use of the property, notwithstanding that the BOE has issued an OCC or SCC to the claimant.

The following table shows the number of welfare exemptions processed by the assessor for recent years:

ROLL YEAR	WELFARE	
	Number	Exempted Value
2007-08	1,348	\$1,112,070,564
2006-07	1,173	\$1,032,621,296
2005-06	1,142	\$890,776,860
2004-05	1,060	\$767,647,235
2003-04	1,060	\$722,865,892

We reviewed a variety of welfare exemption claims, including first-time filings and annual filings. The assessor utilizes the KIPS system to process welfare exemption claims. The system identifies welfare claims by a code that is inputted by the assessor's staff. The code dictates how the claims are processed and which exemption amount is applicable. KIPS also allows penalties and fees to be applied.

During our review of exemption claims, we inspected claims for low-income housing property, including properties owned by a limited partnership holding an SCC. Our review indicated that the assessor is properly administering the welfare exemption. Accordingly, we have no recommendations in this area.

**Homeowners' and Disabled Veterans' Exemptions**

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

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

The homeowners' exemption requires a one-time filing. Once granted, the exemption remains in effect until title to the property changes, the owner does not occupy the dwelling as his or her principal place of residence as of the lien date, or the property is otherwise ineligible.

The assessor processed 107,358 homeowners' claims and 555 disabled veterans' exemption claims for the 2007-08 assessment roll.

The following table shows the number of homeowners' and disabled veterans' exemptions processed by the assessor for recent years:

ROLL YEAR	HOMEOWNERS'		DISABLED VETERANS'	
	Number	Exempted Value	Number	Exempted Value
2007-08	107,358	\$750,447,959	555	\$55,066,316
2006-07	104,959	\$733,494,882	530	\$48,686,931
2005-06	103,367	\$722,336,028	506	\$45,883,819
2004-05	104,638	\$731,145,079	474	\$40,702,801
2003-04	103,413	\$722,486,013	403	\$33,502,836

Our review of the homeowners' and disabled veterans' exemption records indicates that the assessor is properly processing these exemptions. Accordingly, we have no recommendations in this area.

**Assessment Forms**

Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation.<sup>5</sup> Generally, the assessor may not change, add to, or delete the specific wording in a prescribed form. However, the assessor may rearrange information on a form provided the assessor submits such form to the BOE for review and approval. Assessors may also use locally developed forms to assist them in their assessment duties.

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

Review of the forms used by the Kern County Assessor's Office for the year 2007 revealed the following:

- The assessor used 80 BOE-prescribed forms.
- Of the 80 forms used, the assessor rearranged three.
- The assessor has timely provided the BOE with copies of rearranged forms, final prints, and forms checklists.

We have no recommendations for this program.

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<sup>5</sup> See also sections 480(c), 480.2(b), 480.4, and Rules 101 and 171.

## **ASSESSMENT OF REAL PROPERTY**

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

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

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

### ***Change in Ownership***

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

### **Document Processing**

All documents recorded with the recorder's office are transferred electronically to the assessor's office on a daily basis. The assessor has developed a program that sorts through the recorder's database for recorded documents pertaining to changes in ownership. The recorded documents are initially screened by a Fiscal Support Technician for parcel identification by legal description.

After identification, the documents requiring cartographic editing (e.g., lot line adjustments, lot splits, or other newly created parcels) and those containing more complex legal descriptions are forwarded to the drafting department. All other documents pertaining to changes in ownership are sent to the other three Fiscal Support technicians who are responsible for checking ownership on the roll against the deed and determining if a document is cause for a reassessment.

The documents not sent to appraisers for reassessment are either used to update the tax roll or discarded. Changes in ownership, including partial transfers, are entered into the assessor's computer system by recording date. Each transfer file is assigned to an appraiser by geographic area and property type. If transfer documents indicate a sale involved unusual financing, a trade, or included personal property, the appraiser is responsible for further investigation to determine

if a cash equivalency adjustment is justified. Upon completion, each appraisal is submitted to the chief appraiser for review.

By county ordinance, subject parcel numbers are attached to incoming transfer documents and documents for the removal of the homeowners' exemptions. Where staff determines that a transferee might be eligible for this exemption or an applicable exclusion from change in ownership, the file is flagged.

Over the past several years, most deeds received from the recorder have had the form BOE-502-A, *Preliminary Change of Ownership Report (PCOR)*, attached. The recorder charges a \$20 fee when a deed is recorded without a PCOR. Both the assessor and the recorder make the PCOR available online and at the public counter.

**Section 69.5 Exclusion**

Section 69.5 generally allows for the transfer of the base year value of a principal residence to a replacement dwelling of equal or lesser value, provided the property owner is at least 55 years of age or is severely and permanently disabled, the owner files a claim timely, and the properties are within the same county.

We reviewed several base year transfer exclusions including filed applications, and found all documents to be in compliance. The assessor is currently submitting to the BOE quarterly section 69.5 reports as required by section 69.5(b)(7).

The following table shows the number of section 69.5 transfers for recent years:

<b>ROLL YEAR</b>	<b>SECTION 69.5 TRANSFERS</b>
2007-08	8
2006-07	37
2005-06	45
2004-05	34

**Section 63.1 Exclusion**

Section 63.1 excludes from the definition of change in ownership the purchase or transfer of the principal residence and the first \$1 million of other real property between parents and children when a claim is filed timely. Certain transfers from grandparents to grandchildren are also excludable.

We reviewed several parent-child exclusions, including filed applications, and found all documents to be in compliance. The assessor submits to the BOE quarterly section 63.1 reports as requested by the BOE. The assessor was not able to provide specific statistics for the number of section 63.1 transfers over recent years, but estimated the number for 2007-08 at 900.

We found applications are properly processed and that this program fully complies with section 63.1.

### Section 408.1 Transfer Lists

The assessor maintains a list, available to the public, showing property transfers that have occurred in the prior two years. The list includes all of the items as required by section 408.1(b). The assessor makes available at no charge to the public a computer database listing showing property transfers that have occurred over the past two years. This list is updated daily. Properties are listed by assessor's parcel number and can be sorted by different criteria.

### Improvement Bonds

Improvement bonds are instruments used to finance construction of public improvements that generally enhance the land value of privately owned real property, such as sewers, sidewalks, lighting, and water lines. Land directly benefiting from such improvements is pledged as security for payment of the construction loan.

Section 110(b) provides there is a rebuttable presumption that the value of improvements financed by the proceeds of an assessment resulting in a lien imposed on the property by a public entity is reflected in the total consideration, exclusive of that lien amount, involved in the transaction. This presumption may be overcome if the assessor establishes by a preponderance of the evidence that all or a portion of the value of those improvements is not reflected in that consideration.

The assessor's market analysis of residential and commercial properties encumbered by improvement bonds in Kern County indicates that there is no evidence to justify the addition of bond balances to sales prices. After comparing sale prices with enrolled values of several parcels within the bond district, we found that the assessor is consistent with the section 110(b). It appears that bond encumbrances have had no effect on the rate of real property transfers within Kern County.

### Legal Entity Ownership Program (LEOP)

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

To help assessors, the BOE's LEOP unit investigates and verifies changes in entity control and legal ownership reported by legal entities, transmitting to each county a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, many of the acquiring

entities do not provide information sufficient to identify the real property that they own. Because of the limited data provided by many entities, assessors should independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

We reviewed the assessments of properties owned by four of the legal entities reported by the BOE to have experienced a change in ownership within the last few years. We found that when the assessor receives the LEOP listing from the BOE, the assessor reviews the list, identifies the parcels, and updates the computer database. The assessor properly and promptly revalued all parcels undergoing a change in control and reassigned business property accounts to the new owners.

### **Direct Enrollment Program**

Direct enrollment is a program used in many assessors' offices to streamline the processing of uncomplicated transfers of residential properties. In Kern County, the assessor's direct enrollment program is used to only enroll qualifying single-family residences in assigned neighborhoods. The assistant assessor is responsible for the program and estimates that 30 percent of the properties on the roll are enrolled through the direct enrollment program. The program is run on a daily basis and updated automatically with the most recent sales.

Overall, we found the assessor's change in ownership program to be efficient and well managed. However, we did find one area in need of improvement.

**RECOMMENDATION 3:** Improve the change in ownership program by applying the section 482(a) penalty for failure to file a COS.

The assessor does not apply the section 482 penalty when a taxpayer fails to file COS. Section 480(a) provides that whenever there occurs any change in ownership of real property or of a manufactured home subject to local property taxation, the transferee shall file a signed COS. Section 482(a) provides that if a person or legal entity required to file a statement described in section 480 fails to do so within 45 days from the date of a written request by the assessor, a penalty of either: (1) one hundred dollars (\$100), or (2) 10 percent of the taxes applicable to the new base year value, whichever is greater, but not to exceed \$2,500, shall be added to the assessment made on the roll.

The information contained in a properly completed COS assists the assessor in making an accurate assessment. By not processing penalties in a timely fashion, the assessor is not enforcing section 482 as prescribed and conveys to the public that these statements and the application of the penalty are unimportant.

### ***New Construction***

Section 70 defines newly constructed property, or new construction, as any addition to real property since the last lien date, or any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different use. Section 70 further establishes that any rehabilitation, renovation, or modernization that converts

an improvement to the substantial equivalent of a new improvement, constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property on each lien date while construction is in progress and on its date of completion, and provides that the full cash value of completed new construction becomes the new base year value of the newly constructed property.

Rules 463 and 463.500 clarify the statutory provisions of sections 70 and 71, and the Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6, provides guidance for the assessment of new construction. There are several statutory exclusions that constitute new construction; sections 70(c), (d), and (e), and sections 73 through 74.7 address these exclusions.

### Discovery

The assessor has written procedures, policies and forms dealing with new construction. Building permits are the assessor's primary means of discovering new construction. Additional sources of discovery include field inspections, reviews of properties listed for sale, neighbor inquiries, aerial photographs, and declarations on business property statements.

The assessor receives building permits from 14 permit-issuing agencies. Notices of completion and building plans are sent to the assessor upon request.

### Permit Processing

Newly issued permits are transmitted to the assessor monthly in either electronic or hard copy format. Most city and all county permits arrive electronically. Permit information from outlying areas of Kern County is transferred in hard copy format. This data is entered into the assessor's database by the Senior Information Systems Specialist. A default report advises the Fiscal Support Technician of any permits which could not be entered into the system.

All permits received from the permit-issuing agencies are processed by the fiscal and technical support staff. Permits are sorted into two categories: value and no value. Permits for non-assessable new construction such as re-roofing, water heater replacement, minor electrical work, plumbing and mechanical items are culled. Information from the remaining permits, such as assessor's parcel number, permit number, permitting agency, construction code, taxpayer's name, property description and permit value are posted to the Building Permit Maintenance Database.

Individual appraiser queues are electronically loaded with the permits listed to be worked by event type and permit number. Once the permit information is entered into the electronic queue, it must be worked through the system. In addition to the electronic version of the permit, a hard copy is placed in the appraisal record, which is subsequently distributed to the appraisers.

After review and valuation of new construction, the permits and the appraisal records are forwarded to the section senior and section supervisor for review. Upon approval, the values are entered into the system. A supplemental assessment notice is generated when appropriate.

The following is a table indicating the total number of permits received and the number of permits generating a change in value for the last five years:

<b>ROLL YEAR</b>	<b>PERMITS RECEIVED</b>	<b>PERMITS RESULTING IN NEW ASSESSMENTS</b>
2008-09	9,991	2,820
2007-08	14,946	6,688
2006-07	19,009	2,215
2005-06	18,076	2,794
2004-05	15,956	4,856

The assessor has procedures in place to ensure proper processing and a through review of all permits.

**Valuation**

The assessor does not have a self-reporting program for valuing new construction. The assessor values and enrolls new construction as of the date of completion.

Based on notices of completion from the building department or taxpayer contact, appraisers determine the completion date for new construction. Several cost sources are used in valuing new construction, including the Assessors' Handbook Section 531, *Residential Building Costs*; local costs; the *Marshall and Swift Valuation Guide*; and reported and historical costs. Income and sales comparison approaches are also used in determining the value of new construction.

Field inspections are conducted for most new construction, with the exception of swimming pools and spas. The assessor has completed a formal study to determine the value added by pools and spas. Appraisers value new construction according to market value contribution. New construction noted on form BOE-571-L, schedule B of the business property statement is forwarded to the Real Property Division for valuation.

Annually, the assessor updates the computer system with the latest inflation factor obtained from the BOE. Cost guides are also updated as new data becomes available.

**Construction in Progress**

The assessor correctly values construction in progress at its full value on each lien date. New construction is assessed at its fair market value upon completion and a base year value is assigned. We reviewed the assessor's records and found new construction assessments were properly documented both on appraisal records and in the assessor's computer system. We found no problems with the valuation of construction in progress.

We reviewed several residential, agricultural and commercial parcels involving new or additional construction. We found that the assessor's procedures and practices for discovery, permit processing, and valuation comply with statutory requirements.

**Declines in Value**

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

The following table shows the number of decline-in-value property assessments for recent years:

<b>ROLL YEAR</b>	<b>DECLINE-IN-VALUE ASSESSMENTS</b>
2008-2009	40,000+/-
2007-2008	13,785
2006-2007	17,201
2005-2006	5,407
2004-2005	6,983

The assessor proactively reviews properties within the county and temporarily reduces the values of properties suffering declines in value. The county has actively tracked the general decline in property values in the county for the past four years. For 2008 the assessor's initial analysis of the market indicated approximately 40,000 properties required a review for potential declines in value.

The assessor uses *indexing* as his primary approach to value. This approach involves making a time adjustment to the sales prices of the properties by multiplying the sales price by an index factor. The index factor is calculated from a compilation of data for the greater Bakersfield metropolitan area. New subdivision valuations are valued based on typical approaches to value and used to create consistent valuation models. These models are applied throughout the county based on four years of extensive research and comparable sales crosschecking to verify the indexed value based on current market conditions.

All properties experiencing a decline in value are identified and tracked by code, which prevents the application of the annual inflation factor. This coding also allows properties experiencing declines in value to be easily identified for annual review. Taxpayer inquiries are referred to an appraiser, who selects several comparable sales from the county's database for each property based on the subject's property characteristics. Commercial and agricultural properties, along with residential properties located outside of the Bakersfield area, are identified and valued separately. We reviewed a number of decline-in-value reviews initiated by the assessor; all

parcels reviewed were well documented. The assessor's decline-in-value program meets all statutory requirements, including the treatment of fixtures as separate appraisal units for business properties.

The assessor's foresight, proactive review, and approach to value studies are a model for conducting decline-in-value reviews in an unstable market. The assessor's policies and procedures are clearly consistent with best practices, and are consistent with all requirements defined in the California Constitution.

### **California Land Conservation Act Property**

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

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

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

For the 2007-08 roll year, Kern County had 10,226 parcels encumbered by CLCA contracts. These lands totaled 1,474,823 acres with a restricted land and improvement value of \$2,623,679,397. The county also has land subject to Farmland Security Zone (FSZ) contracts (a more restrictive form of the CLCA) that includes 962 parcels, encompassing 145,187 acres with a restricted land and improvement value of \$562,264,401. The acreage under contract is similar to the 2002 totals of 1,570,000 and 147,000 acres, respectively. Kern County also has 843 contracts in nonrenewal status and an undetermined number that have been cancelled.

Most of the rural property in Kern County is devoted to agricultural use with milk, grapes, citrus, almonds, carrots, pistachios, alfalfa, livestock, cotton, and silage comprising the ten largest commodities by value. The county surpassed \$4 billion in gross production value of agricultural commodities in 2007, an increase of nearly 18 percent from the 2006 value. The marked increase was mainly the result of increased prices for milk, tree crops, and field crops. Agriculture, along with the oil industry, continues to be the backbone of the economy in Kern County.

### **Valuation**

The valuation of CLCA property in Kern County is the responsibility of the real property appraiser assigned to the area in which the property is situated. Each appraiser is responsible for reviewing questionnaires, updating property records, and verifying rents. This information is

further processed and reviewed by a senior appraiser and a supervising appraiser before it is entered into their agricultural preserve assessment program.

CLCA questionnaires are mailed to taxpayers on an annual basis. The information gathered from the questionnaires is combined with information from other sources of agricultural data to determine income and expenses. We found that compatible uses on CLCA properties were being correctly valued by the assessor.

In developing the capitalization rate used in valuing CLCA and FSZ properties, the assessor correctly uses the current interest component provided annually by the BOE. The assessor also incorporates components for risk and the tax rate specific to the property's location. For properties in the CLCA assessment program, the assessor uses a risk rate of .25 percent for dry grazing land, one percent for irrigated land, and two percent for land with special uses and permanent plantings. The risk rates are in conformance with the guidelines set forth in the AH 521 page II-26. The assessor correctly compares the restricted value with the current market value and the adjusted factored base year value, and enrolls the lower of the three. Additionally, we found the assessor is correctly issuing supplemental assessments on the unrestricted portions of the contracted parcels and revaluing homesites and nonliving improvements at market value.

We reviewed a number of CLCA and FSZ appraisal files and found the assessor has an effective and comprehensive program to value these properties.

### ***Taxable Possessory Interests***

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

The assessor is responsible for identifying the existence of taxable possessory interests and valuing them upon their creation, renewal, or renegotiation of the lease, and upon the construction of new improvements on the property.

The Kern County Assessor's program for discovering taxable possessory interests includes annual polling of all government entities in the county and requesting information on agreements with private parties. The assessor contacts approximately 33 public agencies annually by letter to request current information on new or changed tenancies and rents. There are 567 taxable possessory interests currently enrolled in Kern County. The assessed value of these possessory interests for roll year 2008 (land and improvements) totals approximately \$129.5 million.

Valuation and monitoring of taxable possessory interests are the responsibility of several appraisers, with a senior appraiser acting as the lead. The assessor is in the process of implementing an improved procedure for discovering, tracking, and valuing taxable possessory interests within Kern County. As part of the new procedure, the assistant assessor values the cable television possessory interests; an appraiser is assigned to value taxable possessory

interests at each of the Kern County airports; and a senior appraiser is assigned to value all of the remaining taxable possessory interests, which would include forestry cabins, grazing rights, boat slips, and others.

In our review of the assessor's assessment program for taxable possessory interests, we found four areas in need of improvement.

**RECOMMENDATION 4:** Improve the possessory interest program by: (1) assessing all taxable possessory interests, (2) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, (3) deducting allowed expenses from gross income when valuing taxable possessory interests by the income approach, and (4) revaluing taxable possessory interests at the end of their reasonably anticipated term of possession.

**Assess all taxable possessory interests.**

In December 2005, the Kern County Board of Supervisors adopted an ordinance implementing a portion of section 155.20. The ordinance authorizes the exemption of any taxable possessory interest located within a publicly owned fairground facility or publicly owned convention center with a full value of \$40,000 or less. According to the assessor, the low-value property exemption eliminates the need to monitor these facilities for potential taxable possessory interests.

We obtained a list of concessionaires from 2002 through 2007 from the Kern County Fairgrounds and an event log from 2005 through 2008 from the Rabobank Arena Theatre and Convention Center. We found several concessionaires and events that qualified as potential taxable possessory interests with a full value above the \$40,000 exemption threshold based on their income contribution to the fairgrounds or convention center. Because the assessor is not monitoring these potential taxable possessory interests, he is unable to determine whether they fall within the parameters of the low-value property exemption ordinance.

The assessor's practice of not monitoring potential possessory interests at the Kern County Fairgrounds and at the Rabobank Arena Theater and Convention Center may mean that taxable possessory interests are escaping assessment.

**Periodically review all taxable possessory interests with stated terms of possession for declines in value.**

It has been the assessor's practice to enroll the factored base year value of a taxable possessory interest until the expiration of the contract term of possession or a change in ownership. The assessor is in the process of correcting this problem; however, we discovered a sufficient number of files that have yet to be corrected to warrant a recommendation.

Rule 21(d)(1) provides that a contract term of possession is presumed to be the reasonably anticipated term of possession unless there is clear and convincing evidence that the lessor and lessee have reached a mutual understanding or agreement to modify the contract term.

Although the assessor is not required to reappraise all properties each year, the assessor should develop a program to periodically review the assessments of taxable possessory interests with stated terms of possession to ensure declines in value of taxable possessory interests are consistently recognized. Failure to use a declining term when valuing taxable possessory interests may overstate the taxable value of the possessory interest.

**Deduct allowed expenses from gross income when valuing taxable possessory interests by the income approach.**

In our review of the assessor's taxable possessory interest files, we discovered the assessor typically capitalizes the actual contract rent without making any deductions from the gross rent for management and other operating expenses incurred by the public lessor.

Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests*, page 31 provides that allowed expenses paid by the public owner should be deducted from the estimated economic rent. Rule 21(e)(3)(A) provides that in utilizing the direct income approach, the amount to be capitalized to arrive at a value estimate is the future net income that the taxable possessory interest is capable of producing under typical, prudent management during the term of possession. Further, Rule 8(c) provides that it is appropriate to reduce a lessor's rental income for typical management and other property related expenses incurred by the lessor.

A public owner will incur some management expense with each taxable possessory interest. Certain lease agreements may require the public owner to pay for insurance, maintenance, or utilities. The assessor's practice of capitalizing the gross income without deducting for typical management and other property related expenses may overstate the value of taxable possessory interests.

**Revalue taxable possessory interests at the end of their reasonably anticipated term of possession.**

In our review of the assessor's taxable possessory interest files, we found a number of taxable possessory interests that the assessor failed to revalue at the end of their reasonably anticipated terms of possession.

Section 61(b) provides that a "change in ownership" includes the creation, renewal, extension, or assignment of a taxable possessory interest in tax exempt real property. Section 61(b)(2) provides that the assessor shall, at the end of the reasonably anticipate term of possession used by the assessor, establish a new base year value, based on a new reasonably anticipated term of possession. Section 61(b)(2) also provides that the renewal or extension of a taxable possessory interest during the reasonably anticipated term of possession used to value the interest does not result in a change in ownership until the end of the reasonably anticipated term of possession.

By not revaluing taxable possessory interests as provided in section 61(b)(2), the assessor has not recognized the change of ownership occurring at the end of the reasonably anticipated term of possession and has been enrolling inaccurate assessments.

## **Leasehold Improvements**

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

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

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

The Kern County Assessor's Office follows the guidelines in AH 504 for classification between trade fixtures (personal property) and structures (real property). Communication between the real and personal property divisions is accomplished with the use of a transmittal form. Copies of the Cost Detail, Schedule B of the BPS, and any supplemental schedules are attached to the transmittal form. The business division forwards transmittal forms to the Supervising Real Property Appraiser for analysis when structural leasehold improvement costs are reported on the BPS. The real property staff reviews costs to determine if costs are for new trade fixtures, new structural improvements, repairs or replacements. Transmittal forms are discarded after all reported costs are reviewed and compared to the enrolled costs. This process prevents double assessments and escaped assessments.

### **Discovery**

The primary discovery tools for leasehold improvements are building permits. In addition, the assessor relies on the BPS, field inspections, commercial/industrial lease documents, and audits. Permit information is reviewed and recorded onto the Commercial Property Record. All costs reported on the BPS are investigated when an audit is conducted by both the real property and personal property appraisers. When either the real property division or the business division makes discoveries as a result of field inspections, transmittal forms are used to alert the other division of possible unreported leasehold improvements. Assessment of structural leasehold improvements is the responsibility of the real property division. The business property division is responsible for assessing tenant improvements classified as fixtures.

### **Valuation**

Structural items are classified as real property and assessed at the lower of their factored base year value or current market value. Leasehold improvements are assessed to the lessor except

when there exists a documented agreement between lessor and lessee to do otherwise. The business property division makes no value change when leasehold improvements are abandoned. Structural improvements abandoned by the lessee are assessed to the lessor. The business division annually assesses business fixtures to the lessee. Supplemental assessments are applied to structural leasehold improvements on both the secured and unsecured rolls.

### ***Water Company Property***

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

#### **Municipal Water Systems**

Article XIII, section 3(b) of the California Constitution exempts from taxation property owned by a local government that is located within its boundaries. This exemption includes both property owned by city water departments that is located within city limits, and property owned by water districts within district boundaries. When the water system is located outside of the government agency's boundaries, this exemption does not apply. Article XIII, section 11, subdivision (a)(2) 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 did not find any problems with the assessment of parcels in Kern County owned by municipal water systems.

#### **Private Water Companies Regulated by the CPUC**

Regulated water companies are privately owned utilities in business to earn a profit from the sale of water. The California Public Utilities Commission (CPUC) requires regulated water companies to submit financial reports annually. The CPUC regulates the rates charged by private water companies, limiting profits to a return based upon the companies' outstanding investment. Assessed values of these properties may be tied directly to regulated rates, and current market values can be less than the factored base year values. The market value of regulated water company property is often close to the historical cost less depreciation indicator when the income from the property is regulated by law and is based on the company's book cost. Therefore, it is necessary to review these values every lien date.

The assessor has identified eight assessable water companies regulated by the CPUC in Kern County with an assessed value of \$103,161,705. After reviewing the assessor's methodology, appraisals, and documentation of regulated water companies, we concluded that the assessed values are reasonable and based on accepted appraisal principles.

## Private Water Systems Not Regulated by the CPUC

Unregulated private water systems are similar to regulated water companies in that they are usually owned by individuals or corporations and are operated on a for-profit basis to supply water to commercial developments such as manufactured home parks, resorts, or campgrounds. However, they do not sell water for profit to customers in the same manner as regulated water companies. They are unregulated because they do not sell water to the general public, but rather supply water only to users in their own development. We reviewed the assessments of property owned by private water systems and found no problems.

## Mutual Water Companies

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

At the time of our survey, 108 mutual water companies were identified in Kern County. A minimal value (or zero value) is enrolled on most real property owned by mutual water companies. We found the assessor is applying proper procedures when assessing properties owned by the mutual water companies located in the county.

We found the water company program to be current and reflect accurate value calculations.

## **Mineral Property**

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties.

## **Mining Property**

Kern County has several mining properties. Commodities produced range from sand and gravel to industrial minerals, such as boron. Kern County has had gold production in the past, but there are no current commercial mining operations in the county. The mineral rights are appraised by the Special Properties Division. The equipment and fixtures associated with these mining properties are appraised by the Business Property Division.

**RECOMMENDATION 5:** Appraise mining property according to Rule 469 by:  
(1) adjusting mineral right values to account for depletion, increases in reserves, or indexing, and (2) coordinate appraisal of fixtures and other business property with real property appraisals to measure declines in value on the entire appraisal unit.

**Adjust mineral right values to account for depletion, increases in reserves, or indexing.**

The assessor is in the process of implementing changes to mining property appraisals to adjust their base year values each year for depletion. However, certain mineral right values are being carried forward with no adjustment for depletion or indexing for inflation as required by section 51(a)(2). Mineral properties are wasting assets. When the Board implemented Rule 469, it recognized this fact by establishing that the adjusted base year value of a mineral property must be further adjusted to account for the prior year's production of the mineral. Decreases in remaining reserves have a direct impact on the value of the mineral rights. Failure to adjust for depletion can result in an over assessment of the mining property.

**Coordinate appraisal of fixtures and other business property with real property appraisals to measure declines in value on the entire appraisal unit.**

The mineral property appraisal unit for measuring declines in value is defined by Rule 469(e)(2)(C). Rule 469(e)(2)(C) defines the unit as land, improvements including fixtures, and reserves. Excluded from the appraisal unit are leach pads, settling ponds, and tailings facilities, which are to be treated as separate appraisal units. There is no coordinated effort between the business and real property divisions to appraise mining properties as a single appraisal unit. Each division appraises its portion of the property and enrolls the values as separate appraisal units. Base year values for improvements and fixtures typically appraised by the auditor-appraisers are not tracked. These values are necessary to determine the enrolled value if the current market value of the total appraisal unit is greater than the adjusted base year value of all the components of that unit.

**Petroleum Property**

Kern County is the largest petroleum-producing county in the state. In 2006, Kern County produced 170,087,646 barrels of oil and 188,632,953 million cubic feet of gas, which represents 76 percent of the oil and 64 percent of the gas produced in the state, excluding production from federal offshore properties. For 2006, there were over 3,400 petroleum properties on the roll. The total value of petroleum properties on the 2006 tax roll was \$24 billion. This number represents 30 percent of the tax roll. Petroleum property appraisals are done by the Special Properties Section of the assessor's office.

**Pipeline Rights-of-Way**

Intercounty pipeline rights-of-way were assessed by the BOE from approximately 1982 until 1993, when an appellate court ruled that such assessments were outside the BOE's constitutional authority. The court ruled that while the pipelines themselves are properly assessed by the BOE,

the rights-of-way through which the pipelines run must be locally assessed. Subsequent to this court ruling, the Legislature added sections 401.8 through 401.13, which govern the valuation of intercounty pipeline lands and rights-of-way.

Prior to the 1993 appellate court decision, the BOE developed "density classifications" for comparative appraisal purposes to value pipeline rights-of-way. In 1996, the state passed legislation that precluded legal challenge by taxpayers of any assessment made in accordance with the BOE density classifications. Assessors lose this statutory presumption of correctness if they value rights-of-way using another method.

For the 2008-09 roll, Kern County had 41 pipeline rights-of-way assessed at approximately \$40 million. For each intercounty pipeline assessed by the BOE, the assessor correctly values the local pipeline rights-of-way using the appropriate density classification and value schedule found in section 401.10(a)(1)(A). The assessor also maintains separate assessments for each parcel of the pipeline right-of-way. For billing purposes, the assessor combines each separate pipeline right-of-way assessment into a single, countywide assessment per taxpayer, as required by section 401.8. The assessor also values multiple pipelines in a right-of-way using the standard prescribed by section 401.10(a)(3)(A).

Although the assessor correctly valued local pipeline rights-of-way using the appropriate density classification and value schedule found in section 401.10(a)(1)(A), he failed to apply the appropriate inflation factor.

**RECOMMENDATION 6:** Use the appropriate inflationary factor to determine the assessed value of pipeline rights-of-way for the current year in accordance with section 401.10(a)(1)(A).

In our review of the assessor's assessments for pipeline rights-of-way, we found the assessor did not factor the base year values for the 2008-09 roll year to determine the assessed values. Section 401.10(a)(1)(A) states that the assessor must annually adjust for inflation in accordance with subdivision (b) of Section 2 of Article XIII A of the California Constitution, if the county determined the 1975-76 base year in accordance with Section 401.10. Kern County uses the BOE schedule for determining pipeline rights-of-way and is obligated to follow the directives set forth in Section 401.10.

The use of an incorrect inflation factor to determine the 2008-09 assessed values for all pipeline rights-of-way assessed by the county has resulted in incorrect assessments.

## **ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES**

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

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

### ***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.

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

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

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

ROLL YEAR	TOTAL AUDITS	MANDATORY AUDITS	NONMANDATORY AUDITS	NET VALUE CHANGE
2007-08	251	251	3	\$124,216,799
2006-07	281	281	9	-\$20,307,598
2005-06	185	162	23	\$37,176,701
2004-05	219	195	24	\$107,342,012

Based on recent audit history, the assessor complies with the number of audits mandated by section 469.

### Statute of Limitations

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

When an audit cannot be completed within the statutory time period, the assessor should request a waiver of the statute of limitations. A waiver allows the assessor additional time to complete any audits that were in process at the end of the assessment year.

We found the assessor requests signed waivers for accounts that are scheduled for audit or approaching expiration under the statute of limitations; however, signed waivers are not always returned. The advantage to the taxpayer in signing a waiver is to allow additional time if an overassessment has occurred so that the taxpayer can receive a refund. Approximately 90 percent of the waivers of statute of limitations are returned.

### Audit Quality

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

We reviewed a sample of 13 mandatory audits in detail. Our review verified the steps completed in the audit process. The assessor's narrative page indicated what records were reviewed, how the records were reconciled, when a physical inspection occurred, and a brief conclusion of any audit differences.

The property tax audit summary recapped the results of the audit by year, referenced the back up detail by a schedule reference number, and indicated the appropriate statutory authority for escape assessments and refunds.

We found the assessor accounted for supplies, classified and valued equipment appropriately, reviewed and verified leased equipment, and enrolled construction in progress, among other things.

We also found the assessor appropriately notified taxpayers when escape assessments occurred by sending out the two required forms: 1) Notice of Proposed Escape Assessment and 2) Notice of Escape Assessment, which notify taxpayers of their right for an assessment appeal.

### ***Business Property Statement Program***

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

We reviewed the assessor's property statement processing procedures and files to ensure that they conform to statutory and regulatory guidelines. We reviewed a sampling of business property statements to verify the following:

- The use of BOE-prescribed forms;
- All processing completed by certified staff;
- The property statements were properly filled out;
- The application of penalties;
- The coordination between the real property and business property divisions; and
- The record storage and retention procedures.

We found the auditor-appraiser checks for completeness, a valid signature, and all statements are date-stamped when received. If a statement is unsigned, a copy is made and the original is returned to the taxpayer for signature. If a statement is received late, the date-stamped envelope is retained and a penalty is added as prescribed by section 463. If a statement reports any changes for real property items, the changes are referred to the real property division for review.

Our review included the verification of written authorizations for agents to sign property statements on behalf of property owners. We found the assessor maintains a filing of the written authorizations separately in the administration section.

The following table displays the assessor's workload of secured and unsecured business property statements and assessments for the 2008-09 roll year:

CATEGORY	ASSESSMENTS	SECURED VALUE	UNSECURED VALUE
Agriculture	943	\$225,296,275	\$180,216,129
Apartments	109	\$3,901,930	\$16,448
Direct Billing	2,143	\$6,137,270	\$33,160,921
Financial	201	\$3,978,927	\$33,524,347
General Business	9,638	\$5,260,441,547	\$800,650,083
Leased Equip.	492	\$0	\$166,909,691
Service Stations	268	\$26,967,855	\$19,278,270
Other	1,250	\$0	\$794,251,640
<b>Total</b>	15,044	\$5,526,723,804	\$2,028,007,529

### Discovery

The discovery of taxable property is an essential function of the county assessor. It is a difficult but necessary task to maintain an accurate and current listing of all assessable business properties. The following sources are utilized for discovery and or verification of assessable business property: field canvassing, sales tax permits, business directories, telephone directories, real property referrals, fictitious business name filings, and business licenses. We found the assessor has an adequate discovery program.

### Direct Billing

Many California assessors utilize an assessment procedure called "direct billing" or "direct assessment". It is a method of assessing lower-value business property accounts without the annual filing of a business property statement. The assessor establishes an initial value and continues it for several years. Property statement filings or field reviews are periodically required. Examples of businesses suitable for direct billing include apartments, barbershops, beauty parlors, coin-operated laundrettes, small cafes and restaurants, and professional firms with small equipment holdings.

The Kern County Assessor has a direct billing program. The direct-billed accounts are generally stable and less than \$50,000 in full cash value of reportable business property. Every four years the assessor sends a business property statement to direct-billed taxpayers to determine if there have been any substantial changes of business property, including increased or decreased equipment, sale of the business, any change in ownership, or a change in location. The assessor then decides whether the account is still suitable for direct billing. If the account no longer qualifies for direct billing, annual business property statements are required to be filed.

## E-Filing Business Property Statements

Section 441(k) was amended, effective January 1, 2004, to allow business property statements to be filed electronically in a format specified by the assessor. Property statements filed with the assessor in electronic format must be authenticated pursuant to methods specified by the assessor and approved by the BOE. Acceptance of electronic filing (e-filing) is at the discretion of the assessor.

Beginning with the year 2007, the Kern County Assessor accepted e-filed business property statements. E-filings are authenticated through the assignment of a personalized key code known as the Business Identification Number (BIN). This code is a random number known only to the taxpayer and the assessor. In the year 2007, the assessor received approximately 1,200 electronically filed business property statements.

### **Business Equipment Valuation**

#### Commercial, Industrial, and Agricultural Equipment

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

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

The assessor uses primarily Assessors' Handbook Section 581, *Equipment and Fixtures Index, Percent Good and Valuation Factors* (AH 581) and CAA Business Assessment Factors to value assessable equipment. In some instances, the assessor uses Marshal Valuation Guide to value cell towers.

#### Classification

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

### **Leased Equipment**

The business property division is responsible for the discovery, valuation, and assessment of leased equipment. This type of property is one of the more difficult to assess correctly. Common problems include difficulty in establishing taxability and taxable situs, reporting errors by lessees and lessors, valuation (whether the value of the equipment should be the lessor's cost or the cost for the consumer purchasing the equipment), and double or escape assessments resulting from

combined lessor and lessee reporting. These issues are discussed in detail in Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*.

Taxpayers are required to report all taxable leased equipment that belongs to others on their annual business property statements. The lessee should report the name and address of the lessor, the month and year of property acquisition, acquisition cost, location, and other relevant information such as sales taxes, freight and installation costs.

Lessors should also report all taxable leased equipment on their annual business property statement. This report from the lessor should include the following: name and address of all the lessees who have equipment out on lease, indication if the lease is a true lease or a conditional lease, the acquisition date, duration of lease, acquisition cost, and indication if sales tax, freight, and installation costs are included in reported cost. If the lessor is a bank or a financial institution, the assessment is made directly to the lessee as provided in section 235.

The assessor uses a separate valuation program for lessors, which values the leased equipment based on the appropriate valuation table and life. This value is transferred to the KIPS program. When the equipment goes off lease, the assessor sends the lessee a letter to determine if the equipment was retained by the lessee, and to determine if the lessee needs to receive an escape assessment.

We reviewed a sample of 13 leased equipment assessments of lessors and lessees for valuation methods, completeness of reporting, tracking of equipment, correct assessee designation, correct expired lease disposition, and proper processing procedures.

We found that the assessor properly assessed true leases to the lessor and conditional sales to the lessee. The lessors consistently reported information on the leased equipment such as lessee name, address, date lease started, term of lease, annual rent, description of equipment and whether sales tax was included in reported cost. The assessor attempts to avoid double assessments by verifying that the lessor is listed in the computer system when a lessee reports leased equipment.

Our sampling also verified that the assessor values propane companies using cost plus a trade level adjustment, and that short-term leases are valued at historical cost.

The assessor has adequate procedures for tracking and crosschecking leased equipment.

### ***Manufactured Homes***

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

In Kern County, manufactured homes are found in 259 manufactured home parks located throughout the county, or on fee-owned land. For the 2006-07 roll there were 21,164 manufactured homes on the secured roll. There are 5,034 manufactured homes located in parks with a total assessed value of \$167,276,874. There are 5,548 manufactured homes affixed to approved foundation systems with a total assessed value of \$629,506,141. Each appraiser is responsible for manufactured home assessments in their assigned geographic area.

The assessor discovers taxable manufactured homes in the county from new installations and voluntary conversions of manufactured homes from listings issued by the Department of Housing and Community Development (HCD). This discovery is supplemented by periodic review of dealer reports of sales, building permits, and tax clearance notifications from the county tax collector's office.

Kern County does not require recorded proof of affixation for manufactured homes placed on approved permanent foundations (HCD Form 433A). When applicable, supplemental assessments are processed for manufactured homes attached permanently to foundations.

Kern County does not have a low-value property exemption resolution specific to manufactured homes, but has a low-value resolution that exempts from taxation all personal property with a full market value of \$5,000 or less.

Prior to 2004, the assessor's policy was to enroll manufactured homes at the transfer price and maintain the value unchanged for subsequent roll years. As of 2004, the assessor's policy changed, and manufactured home transfers were valued according to the BOE cost guide or by comparables sales. Also as of 2004, all manufactured home changes of ownership that occurred prior to 2004 were returned to their factored base year value. Thus, previously enrolled manufactured home roll values now reflect their factored base year values.

The assessor recently reviewed manufactured home values to determine if reductions in value were warranted. The analysis showed manufactured homes had not declined in value for lien date 2008. In Kern County, the market value for manufactured homes has continued to increase in excess of their factored base year values.

## **Aircraft**

### **General Aircraft**

General aircraft are privately owned aircraft that are used for pleasure or business but that are not authorized to carry passengers, mail, or freight on a commercial basis (the difference between general aircraft versus certificated aircraft is discussed below). Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft with the *Vref Aircraft Value Reference (Vref)* as an alternative guide for aircraft not listed in the *Bluebook*.

The Kern County Assessor's Office assessed 1,003 general aircraft (other than historical aircraft) for the 2008-09 assessment roll with a total value of approximately \$151 million. The assessor discovers aircraft through annual field canvassing, review of Federal Aviation Administration reports, tips from taxpayers, and referrals from other counties.

An aircraft property statement is mailed every year to the known owner of each aircraft located in the county requesting information about the aircraft. The aircraft property statement requests that the owner report basic information about the aircraft (year, make and model) as well as installed avionics, engine air hours since last major overhaul, date of last overhaul, overall condition, air worthiness status, cost information, and transfer information if the aircraft has been sold since the last lien date.

Using the *Aircraft Blue Book*, the assessor calculates a market value indicator. Based on information provided by the taxpayer on the aircraft property statement, and incorporated into the value calculations, are adjustments for sales tax, overall condition of the aircraft, additional or special equipment, airframe hours, and engine hours since last major overhaul. The values of newer aircraft are most affected by the presence or lack of optional equipment, while the values of older aircraft are most influenced by the condition of the aircraft.

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

### Certificated Aircraft

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

The assessor correctly assesses the certificated aircraft owned by the 12 commercial airline companies serving Kern County. The total assessed value of the certificated aircraft is approximately \$20 million. The aircraft are assessed using the appropriate allocation formula provided in section 1152, which considers flight and ground time as well as arrivals and departures. This information, critical in determining the aircraft assessments, is routinely gathered from owners of certificated aircraft in the course of the assessor's audits. We have no recommendations in this area.

### Historical Aircraft

Aircraft of historical significance can be exempted from taxation if they meet certain requirements. Section 220.5 defines "aircraft of historical significance" as: (1) an aircraft that is an original, restored, or replica of a heavier than air-powered aircraft 35 years or older; or

(2) any aircraft of a type or model of which there are fewer than five such aircraft known to exist worldwide.

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

There were 69 historical aircraft assessed on the 2008-09 roll in Kern County. The assessor properly obtains signed affidavits in the format prescribed by the BOE. We reviewed several historical aircraft assessments and exemption claims, and found the assessor improperly granted numerous claims that did not have properly signed certificates of attendance.

**RECOMMENDATION 7:** Grant the historical aircraft exemption only to qualifying aircraft.

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

Section 220.5 allows an exemption on "aircraft of historical significance" that have been on public display for at least 12 days in the year proceeding the current lien date. It also requires that a certificate of attendance signed by the event coordinator be attached to the historical aircraft exemption application.

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

### ***Vessels***

The primary sources used for the discovery of assessable vessels include reports from the State Department of Motor Vehicles (DMV), referrals from other counties, information provided by the vessel owners themselves, certificates of documentation issued by the United States Coast Guard, harbormasters' reports, and field canvassing.

The following table details the vessel assessments in Kern County in recent years:

<b>ASSESSMENT ROLL</b>	<b>PLEASURE VESSELS</b>	
2007-08	3,342	\$45,491,480
2006-07	2,940	\$39,284,980
2005-06	4,801	\$35,443,490

The Kern County Assessor uses the *Anderson and Bugg Outboard Service (ABOS)* electronic computer-valuation program to value pleasure vessels in the county. There were no documented vessels in the county. This system allows the assessor to maintain a paperless vessel program that performs multiple functions. It stores scanned images of vessel property statements, receives downloaded updates from the DMV on vessel transfers, maintains vessel characteristics and allows the assessor to include a late-file or non-file penalty.

The appraiser then values the vessel by verifying the posted characteristics, reviewing the information downloaded from the DMV, and analyzing the scanned vessel statement for information regarding the type of vessel, year built, horsepower of engine, condition, and any other additional information submitted by taxpayer. The appraiser also indicates if a late-file or non-file penalty is to be applied.

The assessor receives annual updates from ABOS with current retail vessel values that he downloads to his computer-valuation program. A value increment for sales tax is then added to the downloaded values. Vessels, using a control number to designate the type of vessel, are automatically revalued each year with the updated adjusted values.

We reviewed the appraisal records of 14 vessels and verified that they were assessed at market value, included a value increment for sales tax, that late-file or non-file penalties were applied, and that values transferred correctly to the KIPS program.

We found the assessor's electronic vessel valuation program to be an efficient and cost-effective tool.

## APPENDIXES

### A. County-Assessed Properties Division Survey Group

#### Kern County

*Chief*

Dean Kinnee

*Survey Program Director:*

Benjamin Tang

Principal Property Appraiser

*Survey Team Supervisor:*

David Dodson

Supervising Property Appraiser

*Survey Team Leader:*

Robert Marr

Associate Property Appraiser

*Survey Team:*

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Tom McClaskey

Senior Specialist Property Appraiser

John Frank

Senior Specialist Property Appraiser

Alan Dannen

Associate Property Auditor-Appraiser

Catherine Houlihan

Associate Property Auditor-Appraiser

Paula Montez

Associate Property Auditor-Appraiser

Robert Donay

Associate Property Appraiser

Chandra Williams

Tax Auditor

Bryan Bagood

Assistant Property Appraiser

Byron Roth

Assistant Property Appraiser

Jennifer Prince

Assistant Property Appraiser

Aaron Martinez

Tax Technician I

**B. Relevant Statutes and Regulations**

**Government Code**

**15640. Survey by BOE 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 BOE may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The BOE'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 BOE shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The BOE shall also provide a right to each county assessor to appeal to the BOE 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 BOE 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 BOE to any assessor, or by the BOE or the assessor to the assessee of the property to which the data relate.

The BOE shall permit an assessee of property to inspect, at the appropriate office of the BOE, 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 BOE employees.**

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

**15643. When surveys to be made.**

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

**15644. Recommendations by BOE.**

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 BOE shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition, the BOE may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the BOE 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 BOE a written response to the findings and recommendations in the survey report.

The BOE 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 BOE's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the BOE within two years after the date the BOE 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 BOE 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 BOE'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 BOE'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 BOE. If a county or city and county has been certified following a survey that includes a sampling of assessments, the BOE may continue to certify that county or city and county following a survey that does not include sampling if the BOE finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The BOE shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the BOE finds in the survey conducted without sampling that significant assessment problems exist, the BOE 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 BOE, 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 BOE shall select at random at least three counties from among all except the ten largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) RANDOM SELECTION FOR ASSESSMENT SAMPLING. The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
  - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the BOE from each of these groups. The BOE 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 BOE finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the BOE 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 BOE 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 BOE 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 BOE'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 Kern County Assessor's response begins on the next page. The BOE has no comments on the response.

**JAMES W. FITCH**  
ASSESSOR-RECORDER

ANTHONY ANSOLABEHERE  
Assistant Assessor

JEANI SMITH  
Assistant Recorder



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February 16, 2010

**RECEIVED**

**FEB 17 2010**

County-Assessed Properties Division  
State Board of Equalization

Mr. Dean Kinnee, Chief  
County-Assessed Properties Division  
CA State Board of Equalization  
P.O. Box 942879  
Sacramento, CA 94279-0062

Dear Mr. Kinnee:

Pursuant to Section 15645 of the California Government Code, the following constitutes the Assessor's Response to the recommendations presented in this Assessment Practices Survey for Kern County.

I would like to express my appreciation to the Board's Survey Team for the professional and conscientious manner in which the Survey was conducted. Their positive acknowledgments and constructive comments regarding how my Office works are appreciated.

We welcome the examination of our work and processes. Your constructive recommendations provide us the opportunity to focus on current policies and procedures which allow us to complete our mission of providing accurate, timely and fair assessments, while providing the highest level of benefit to the taxpayers and customers we serve.

Kern County has also felt the effects of current real estate market conditions. Unfortunately, Kern has one of the highest foreclosure rates in the nation and this has caused a tremendous workload for my Office. The majority of our Assessment Roll has to be reviewed every year due to the provisions of the Proposition 8 program. We continue to explore new methods of doing more with less. However, the lack of adequate staffing levels threatens our ability to complete our legal mandates, despite our desire to do otherwise.

Mr. Dean Kinnee, Chief  
February 16, 2010  
Page Two

I also want to thank the staff of the Kern County Assessor's Office for their dedication, professionalism and commitment to serving the citizens of Kern County.

Sincerely,

A handwritten signature in black ink, appearing to read "James W. Fitch", written in a cursive style.

JAMES W. FITCH  
Kern County Assessor-Recorder

JWF:kc

## Responses To Recommendations:

***Recommendation #1: Revise the disaster relief program by: (1) requesting Board of Supervisors revise the disaster relief ordinance to conform to Section 170, and (2) revising the Application For Reassessment and/or Tax Deferral for Damaged or Destroyed Taxable Property to conform to Section 170(b).***

(1) We agree and intend to seek approval by the Board of Supervisors of a revision to the existing disaster relief ordinance to correct and change the dates and procedures to conform to Section 170.

(2) We agree and will revise the form to reflect a minimum damage threshold of \$10,000 rather than \$5,000.

***Recommendation #2: Enroll all escape assessments regardless of value.***

We intend to seek approval by the Board of Supervisors of an ordinance exempting low value escaped assessment in compliance with Revenue & Taxation Code Section 531.9.

***Recommendation #3: Improve the change in ownership program by applying the Section 482(a) penalty for failure to file a CIOS.***

As time and available staff permit, the Assessor will attempt to increase timely enforcement of the penalty for failure to file a Change in Ownership Statement.

***Recommendation #4: Improve the possessory interest program by: (1) assessing all taxable possessory interests, (2) periodically reviewing all taxable possessory interests with stated terms of possession for declines in value, (3) deducting allowed expenses from gross income when valuing taxable possessory interests by the income approach, and (4) revaluing taxable possessory interests at the end of their reasonably anticipated term of possession.***

(1) We agree with this Recommendation and will implement a procedure for monitoring possible taxable possessory interests at the Kern County Fairgrounds, Rabobank Arena, and the Convention Center.

(2) We agree with this Recommendation and will attempt to review taxable possessory interests for declines in value as our staffing and workload constraints allow.

(3) We agree with this Recommendation and will, where documented and appropriate, deduct forecasted expenses paid by the public owner from the estimated economic rent.

(4) We agree with this Recommendation and will attempt to revalue taxable possessory interests at the end of their reasonably anticipated term of possession as our staffing and workload constraints allow.

***Recommendation #5: Appraise mining property according to Rule 469 by: (1) adjusting mineral right values to account for depletion, increases in reserves or indexing and (2) coordinate appraisal of fixtures and other business property with real property appraisals to measure declines in value on the entire appraisal unit.***

(1) We agree and are implementing new procedures.

(2) We agree and are implementing new procedures.

***Recommendation #6: Use the appropriate inflationary factor to determine the assessed value of pipeline-rights-of-way for the current year in accordance with Section 401.10(a)(1)(A)***

We agree and have changed the factors for the year in question.

***Recommendation #7: Grant the Historical Aircraft Exemption only to qualifying aircraft.***

We agree and are implementing changes to our procedures for evaluating historical aircraft exemptions.