

KINGS COUNTY ASSESSMENT PRACTICES SURVEY

JUNE 2008

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STATE BOARD OF EQUALIZATION
PROPERTY AND SPECIAL TAXES DEPARTMENT
450 N STREET, SACRAMENTO, CALIFORNIA
PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0062
916 324-5827 • FAX 916 323-5689
www.boe.ca.gov

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June 13, 2008

TO COUNTY ASSESSORS:

RAMON J. HIRSIG
Executive Director
No. 2008/040

KINGS COUNTY
ASSESSMENT PRACTICES SURVEY

A copy of the Kings County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (Board) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the Board 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 Ken Baird, Kings County Assessor/Clerk/Recorder/Registrar of Voters, 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 Kings County Board of Supervisors and Grand Jury.

Fieldwork for this survey was performed by the Board's County-Assessed Properties Division from November 2006 through January 2007. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Baird 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

TABLE OF CONTENTS

INTRODUCTION..... 1

SCOPE OF ASSESSMENT PRACTICES SURVEYS..... 2

EXECUTIVE SUMMARY 3

RESULTS OF 2003 SURVEY 5

OVERVIEW OF KINGS COUNTY 9

ADMINISTRATION 10

 BUDGET AND STAFFING 10

 APPRAISER CERTIFICATION..... 11

 ASSESSMENT APPEALS..... 11

 DISASTER RELIEF..... 13

 ASSESSMENT ROLL CHANGES..... 14

 EXEMPTIONS 16

ASSESSMENT OF REAL PROPERTY..... 20

 CHANGE IN OWNERSHIP..... 20

 NEW CONSTRUCTION..... 23

 DECLINES IN VALUE 24

 CALIFORNIA LAND CONSERVATION ACT PROPERTIES 25

 TAXABLE GOVERNMENT-OWNED PROPERTIES 28

 TAXABLE POSSESSORY INTERESTS..... 28

 LEASEHOLD IMPROVEMENTS 30

 WATER COMPANY PROPERTIES 31

 PIPELINE RIGHTS-OF-WAY..... 31

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES 32

 AUDITS 32

 BUSINESS PROPERTY STATEMENT PROCESSING..... 34

 BUSINESS EQUIPMENT VALUATION 35

 LEASED EQUIPMENT 36

 MANUFACTURED HOMES 36

 AIRCRAFT 37

 VESSELS..... 39

APPENDIXES 40

 A. COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP..... 40

 B. RELEVANT STATUTES AND REGULATIONS..... 41

ASSESSOR'S RESPONSE TO BOARD'S FINDINGS..... 47

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 (Board) periodically reviews the practices and procedures of (surveys) every county assessor's office. This report reflects the Board's findings in its current survey of the Kings County Assessor/Clerk/Recorder/Registrar of Voters' Office.¹

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the Board, the Senate and Assembly; and the Kings County Board of Supervisors and Grand Jury. 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 Ken Baird, Kings County Assessor/Clerk/Recorder/Registrar of Voters, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

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

¹ This survey report covers only the assessment functions of the assessor's office.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

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

In addition, pursuant to Revenue and Taxation Code² section 75.60, the Board 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 Kings County Assessor'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 Kings County who provided information relevant to the property tax assessment program.

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

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

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

³ All rule references are to sections of 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.

In our 2003 Kings County Assessment Practices Survey, we made 31 recommendations to address problems in the assessor's policies and procedures. The assessor fully implemented 14 of the recommended changes, but failed to implement 17. Of those not implemented, one recommendation is no longer applicable due to a policy change, and eight are no longer applicable due to a change in Board guidance. The remaining recommendations that were not implemented are repeated in this report.

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

The assessor is effectively managing most portions of the administration program, including programs for budgeting and staffing, appraiser certification, assessment appeals, and exemptions. Also, the assessor has an outstanding training and mentoring program. However, the programs for disaster relief and roll corrections need to be improved.

In the assessment of real property, the assessor's programs for assessing property subject to changes in ownership, new construction, taxable government-owned properties, leasehold improvements, water company properties, and pipeline rights-of-way are consistent with the requirements of property tax law. On the other hand, programs for recognizing declines in value, assessing properties under the California Land Conservation Act, and valuing taxable possessory interests do not conform to current law.

In the area of personal property, the assessor has effective programs for processing business property statements and assessing vessels. Also, the assessor's leased equipment program is well managed with staff doing an excellent job in the discovery, processing, tracking, and cross-checking of leased equipment information. However, the assessor must revise the audit program to timely audit taxpayer books and records and solicit waivers of the statute of limitations when audits will not be completed timely; and aircraft must be assessed according to statutory provisions.

We found no significant assessment problems as defined in Rule 371. Since Kings 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. Accordingly, pursuant to section 75.60, Kings County continues to be eligible for recovery of costs associated with administering supplemental assessments.

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

RECOMMENDATION 1: Revise disaster relief procedures by: (1) requesting the board of supervisors to revise the county's disaster relief ordinance to reflect the new requirements of section 170, and (2) revising the *Notice of Proposed Reassessment* to conform to the provisions of section 170(c).....14

RECOMMENDATION 2: Improve assessment roll change procedures by: (1) enrolling all roll changes, and (2) providing taxpayers with the required *Notice of Enrollment of Escape Assessment*.15

RECOMMENDATION 3: Improve the decline-in-value assessment program by: (1) reviewing the assessment of all decline-in-value properties each lien date pursuant to section 51(e), and (2) revising the notice informing assesseees of an increase in a property's full value, to include the information required by section 619(c).....25

RECOMMENDATION 4: Revise the CLCA program by: (1) enrolling supplemental assessments for residential home sites and (2) documenting capitalization rates, expenses, and other factors used in the valuation program.27

RECOMMENDATION 5: Improve the taxable possessory interest program by: (1) enrolling supplemental assessments for statutory changes in ownership, (2) following the guidelines set forth in Rule 21, and (3) deducting allowed expenses from gross income in the income approach.29

RECOMMENDATION 6: Revise the audit assessment program by: (1) timely auditing the books and records of professions, trades, and businesses pursuant to section 469, and (2) obtaining waivers of the statute of limitations pursuant to section 532.1 when a mandatory audit will not be completed timely.33

RECOMMENDATION 7: Enroll supplemental assessments for changes in ownership and new construction of manufactured homes.....37

RECOMMENDATION 8: Annually appraise aircraft at market value.....38

RESULTS OF 2003 SURVEY

Assessment Appeals

We recommended the assessor request the Kings County board of supervisors repeal the resolution imposing an assessment appeals filing fee. Because the imposition of the fee is not a function of the assessor's office, which is the focus of our review, we do not repeat this recommendation

Disaster Relief

We recommended the assessor request that the board of supervisors revise the current disaster relief ordinance to conform to section 170. We also recommended the assessor revise the *Notice of Proposed Reassessment* to conform to the provisions of section 170(c). These recommendations have not been implemented; we repeat them in this report.

Exemptions

We recommended the assessor grant only partial exemptions to homeowners who file late homeowners' exemption claims pursuant to Rule 135. The assessor implemented this recommendation.

Change in Ownership

We recommended the assessor file quarterly reports with the Board, listing claims for transfers of base year values pursuant to section 69.5(b)(7). The assessor implemented this recommendation.

Declines in Value

We recommended the assessor review the assessments of residences in homogeneous areas to discover properties that have experienced declines in value. Since property values were still increasing at the time of our fieldwork in Kings County, this recommendation no longer applies.

Supplemental Assessments

We recommended the assessor: (1) enroll supplemental assessments for changes in ownership and new construction of manufactured homes and residential home sites on land restricted under California Land Conservation Act (CLCA) contracts, and (2) exempt taxable government-owned properties from supplemental assessment.

The assessor still fails to issue supplemental assessments for changes in ownership and new construction of manufactured homes and residential home sites on land restricted under CLCA contracts; therefore, we repeat these recommendations. However, since we found no evidence of supplemental assessments on taxable government-owned property, we will not repeat this particular recommendation.

California Land Conservation Act (CLCA) Properties

We recommended the assessor: (1) establish base year values for dairy mounding, (2) document capitalization rates, expenses, and other factors used in the computerized CLCA valuation program, and (3) enroll CLCA properties at the lowest of their restricted values, their factored base year values, or their current market values.

The assessor implemented recommendations one and three; he established base year values for dairy mounding, and he now enrolls CLCA properties at the lowest of their restricted value, their factored base year value, or their current market value. However, he still fails to document capitalization rates, expenses, and other factors used in the computerized CLCA valuation program. On this issue, we, therefore, repeat our prior recommendation.

Taxable Government-Owned Properties

We recommended the assessor enroll all taxable government-owned properties and review all taxable government-owned properties for proper valuation. The assessor fully implemented these two recommendations.

Taxable Possessory Interests

We recommended the assessor assess all taxable possessory interests at the county fairgrounds. The assessor implemented this recommendation. We also recommended the assessor discontinue enrolling supplemental assessments for terminations of taxable possessory interests. The assessor failed to implement this recommendation; we repeat it in this report.

Leasehold Improvements

We recommended the assessor use the existing interdepartmental memorandum to improve coordination of leasehold improvement assessments between the real property and auditor-appraisers sections. The assessor implemented this recommendation.

Water Company Properties

We recommended the assessor: (1) enroll the real properties owned by regulated water companies at the lower of their factored base year values or current market values; (2) obtain articles of incorporation for mutual water companies; (3) obtain county and state water system inspection reports to discover taxable water company property; and (4) annually mail form BOE-540-S, *Mutual or Private Water Company Property Statement*, to all private and mutual water companies.

We found that the regulated water company in Kings County is no longer in business, its assets have been transferred to the County of Kings, and its customers are now serviced by the municipal water districts. Therefore, our first recommendation no longer applies. Additionally, the assessor implemented recommendations two and three. In this regard, we found in the assessor's files articles of incorporation for the mutual water companies and state water system inspection reports.

Regarding the fourth recommendation, we found that the assessor still does not require the only two mutual water companies in the county to file annual property statements. However, since the assessor has information pertinent to the articles of incorporation on file, this recommendation is not repeated.

Pipeline Rights-of-Way

We recommended the assessor: (1) combine all separate pipeline rights of way into a single assessment for each taxpayer pursuant to section 401.8, and (2) require all pipeline companies to annually file form BOE-571-RW, *Right-of-Way Property Statement*.

The assessor implemented the first recommendation. Regarding the second recommendation, we reviewed the assessor's discovery procedures and files, and found no instances of new pipeline rights-of-way, new construction, or property escaping assessment. Therefore we will not repeat this recommendation.

Audits

We recommended the assessor: (1) bring the mandatory audit program to current status pursuant to section 469, and (2) obtain signed waivers of the statute of limitations when an audit will not be completed in a timely manner. Because these problems continue to exist within the assessor's mandatory audit program, these recommendations are repeated in this survey.

Business Property Statement Processing

We recommended the assessor ensure business property statements contain authorized signatures pursuant to Rule 172. The assessor has implemented this recommendation

Valuation of Business Property

We recommended the assessor use the Assessors' Handbook, Section 581, as intended. This recommendation was made because the assessor's minimum percent good policy was not supported by adequate documentation. In our current survey, we found that the assessor has adopted the price indices and percent good factors recommended by the California Assessors' Association (CAA). Because the CAA minimum percent good recommendations are based on the salvage value study published by *Marshall Valuation Services*, inadequate documentation is no longer an issue.

Leased Equipment

We recommended the assessor review the BOE-600-B forms provided by the Board to discover taxable personal property leased by state assessees. The assessor implemented procedures to conduct reviews of the Board forms.

Vessels

We recommended the assessor document that depreciation rates used to assess pleasure vessels result in market values and delete penalty language from the locally-developed vessel reporting form. The assessor implemented procedures to comply with these recommendations. The assessor uses the current National Automotive Dealers Association value guides to value vessels at market value and has removed penalty language from his locally-developed vessel reporting forms.

Manufactured Homes

We recommended the assessor classify manufactured homes as personal property. The assessor has not implemented this recommendation. However, we found no material impact on the assessments of manufactured homes; thus, we do not repeat this recommendation.

OVERVIEW OF KINGS COUNTY

Located in the heart of the San Joaquin Valley, Kings County has an area of 889,270 acres and a population of 129,461. The county has four incorporated cities: Lemoore, Corcoran, Avenal, and Hanford, the county seat. Kings County has an agricultural-based economy, with raw milk and cotton being the most significant products. Kings County is ranked twelfth in total agricultural production among all California counties. The Lemoore Naval Air Station, the Santa Rosa Rancheria, and three state correctional facilities serve to diversify the economic base.

Kings County shares common borders with the counties of Kern, Tulare, Fresno, and Monterey. A general law county created by the legislature in 1893, Kings County was formed from the western portion of the former Tulare County.

The following table displays property type and enrolled value information pertinent to the 2006-07 assessment roll as provided by the assessor:

PROPERTY TYPE	ENROLLED VALUE
Secured Roll	\$6,356,021,359
Unsecured Roll	\$276,155,543
Total Assessment Roll	\$6,632,176,902

The following table illustrates the growth in assessed values during the past several years as reported in the Board's annual reports:

ROLL YEAR	TOTAL ROLL VALUE	INCREASE	STATEWIDE INCREASE
2006-07	\$6,753,826,000	11.1%	12.3%
2005-06	\$6,079,780,000	10.5%	11.1%
2004-05	\$5,502,695,000	6.5%	8.3%
2003-04	\$5,166,115,000	9.2%	7.3%
2002-03	\$4,730,827,000	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. The subjects addressed include the assessor's budget and staffing, appraiser certification, assessment appeals, disaster relief, assessment roll changes, and exemptions.

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 that 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.

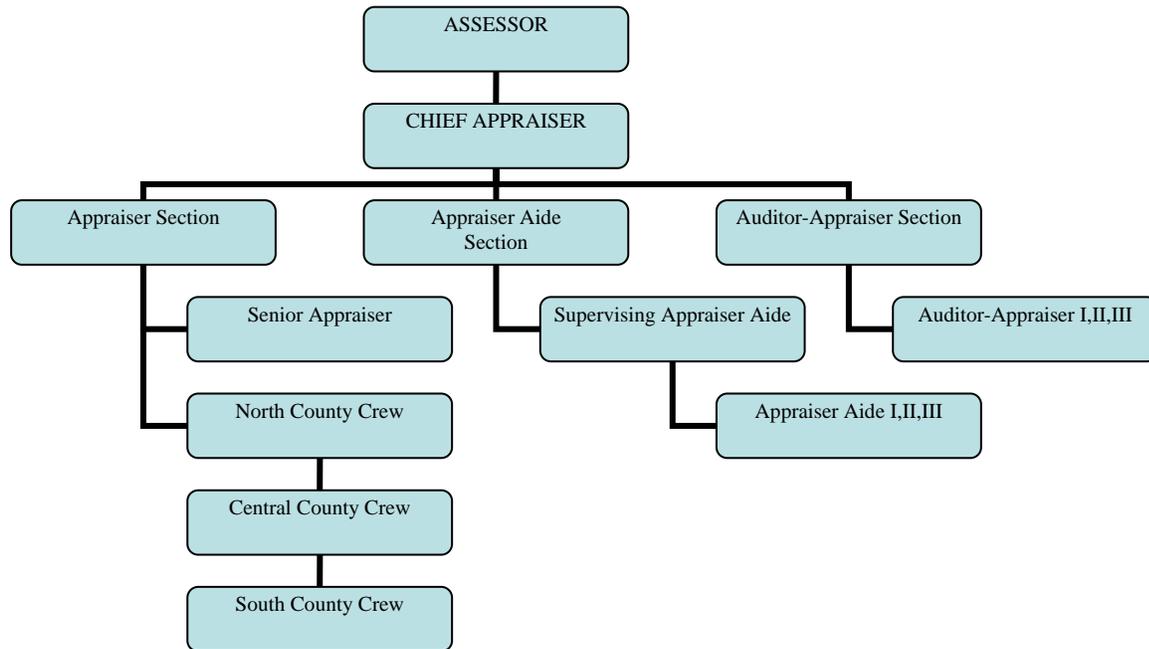
The following table shows the budget levels over recent years:

BUDGET YEAR	GROSS BUDGET	ANNUAL CHANGE	STAFF
2006-07	\$2,084,894	8.090%	26.60
2005-06	\$1,928,849	14.895%	25.65
2004-05	\$1,678,779	11.856%	24.45
2003-04	\$1,500,839	-2.963%	23.35
2002-03	\$1,546,668	N/A	22.75

The gross budget figures reflect funding for appraisal services and related administration and support services; they do not include funds budgeted for the recorder, clerk, or registrar of voter functions.

The two major sections performing the duties of the assessor's office are the appraiser section and the auditor-appraiser section. All functions are overseen by the chief appraiser; technical support functions are provided by an appraiser aide section.

The following is an organization chart of the office:



The senior appraiser is responsible for the assessment of commercial/industrial properties as well as taxable possessory interests and special projects. In addition, the senior appraiser reviews the completed work of the team leaders, and a team leader reviews the completed work of the senior appraiser.

Appraiser III's serve as team leaders, reviewing the work of the appraisers in their assigned crews and mentoring new appraisers. The crews are divided into North County, Central County, and South County.

Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the Board. There are a total of 15 certified appraisers on staff.

We found that the assessor and his staff possess the required certificates. Additionally, we found that the auditor-appraisers performing mandatory audits meet the requirements referenced in section 670(d). The assessor uses a contract appraiser for valuing the mineral properties.

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 Board has adopted Rules 301 through 326 to regulate the assessment appeal process.

In Kings County, the board of supervisors sits as the county board of equalization; the county has one hearing officer and one alternate. The clerk of the county board of equalization is responsible for providing applications for changed assessment to the public, processing returned applications, and providing copies of the applications to the assessor. The county board of equalization schedules hearings as needed to resolve cases.

Once the assessor receives a copy of an application, he contacts the taxpayer in an attempt to resolve the disagreement. If no agreement can be reached, the appeal process continues and a hearing is scheduled. The assessor prepares and presents all real property appeals before the county board of equalization. If an appeal involves business property, the chief appraiser prepares the case and accompanies the assessor to the hearing.

The clerk of the county board of equalization tracks the progress of assessment appeals. The assessor's appeals clerk and the chief appraiser track the status of each appeal using a database program. This program is especially useful for ensuring that assessment appeals cases are resolved in a timely manner. No appeal in the last five years has gone unresolved for longer than two years.

The following table illustrates the assessment appeals workload for the period 2001-02 to 2006-07:

APPEALS	FISCAL YEAR				
	2006-07	2005-06	2004-05	2003-04	2002-03
Appeals Applications Received	180	22	63	21	54
Carried Over	22	20	18	30	0
Total Appeals	202	42	81	51	54
Resolution					
Withdrawn	12	10	20	22	9
Stipulation	158	8	17	8	7
Appeals Reduced	2	0	13	0	0
Appeals Upheld	0	1	5	3	1
Other Determinations*	2	1	6	0	7
Total Resolved	174	20	61	33	24
Carried over to next year	28	22	20	18	30

We reviewed several assessment appeals and found them to be clear and well documented. We attended several assessment appeals hearings and found the assessor's staff was well prepared for their presentations.

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, assessees must make a written application to the assessor requesting reassessment. Alternatively, 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.

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 Kings County Board of Supervisors enacted the county's disaster relief ordinance on December 26, 1984. The ordinance grants the assessor the authority to initiate reassessment without an application where he determines that taxable property was damaged or destroyed. The assessor uses this authority to initiate reassessment in addition to the disaster relief application process.

The assessor discovers calamities from newspaper articles, field investigation, taxpayer notification, and reviewing building permits issued for repairs. We reviewed records of several properties that had suffered a calamity. In each case, the assessor noted the disaster information on the records and properly adjusted the assessed values.

In our 2003 survey, we recommended the assessor request the board of supervisors to revise the disaster relief ordinance to comply with section 170, and that he revise the *Notice of Proposed Reassessment* to conform to the provisions of section 170(c). Neither the county's disaster relief ordinance nor the *Notice of Proposed Reassessment* has been revised; therefore, these recommendations are repeated.

RECOMMENDATION 1: Revise disaster relief procedures by: (1) requesting the board of supervisors to revise the county's disaster relief ordinance to reflect the new requirements of section 170, and (2) revising the *Notice of Proposed Reassessment* to conform to the provisions of section 170(c).

Request the board of supervisors to revise the county's disaster relief ordinance to reflect the new requirements of section 170.

We found that the county's disaster relief ordinance references March 1 as the lien date and has not been updated to reflect the most recent amendments to section 170. Effective January 1, 1997, the annual lien date was moved back to January 1. In addition, the Legislature enacted several changes to section 170, effective January 1, 2002. Among these changes are an increase in the minimum damage requirement (from \$5,000 to \$10,000), extensions of both the appeal filing period (from 14 days to six months) and the claim filing periods. The ordinance could mislead taxpayers because it includes the wrong lien date and has not been updated to reflect the most recent changes to section 170. The assessor should request that the board of supervisors amend the county ordinance to reflect these legislative changes.

Revise the *Notice of Proposed Reassessment* to conform to the provisions of section 170(c).

We found that the notice used by the assessor to inform taxpayers of their proposed reassessments following a claim for disaster relief does not contain the correct appeals filing period.

Section 170(c) provides that the assessor shall notify the applicant in writing of the amount of the proposed reassessment. This notice shall state that the applicant may appeal the proposed reassessment to the local board of equalization within six months of the date of mailing the notice. The notice used by the Kings County Assessor erroneously provides that the assessee has 60 calendar days from the date of mailing the notice to file an appeal.

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 the unpaid taxes requires the consent of the board of supervisors. All changes to the roll are authorized by specific statutes, and any roll change must be accompanied by the appropriate statutory reference.

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

The following table shows the number of roll changes processed by the assessor in recent years:

ROLL YEAR	ROLL CHANGES
2004-05	1,025
2003-04	1,943
2002-03	1,437
2001-02	1,310

Assessment roll changes originate with the appraisers, auditor-appraisers, and exemption clerks. A worksheet is created that accompanies the property appraisal file through the review by the team leader, chief appraiser and assessor. An appraiser aide inputs changes for the current roll, subsequently creating roll corrections for the appropriate number of years. In the case of an escape assessment, the assessor sends a *Notice of Proposed Escape Assessment* to the taxpayer.

After 10 days, values for the escape assessment or changes to prior rolls are transmitted to the tax collector's office, where tax bills are automatically generated. We found a couple of areas needing improvement.

RECOMMENDATION 2: Improve assessment roll change procedures by: (1) enrolling all roll changes, and (2) providing taxpayers with the required *Notice of Enrollment of Escape Assessment*.

Enroll all roll changes.

The assessor does not enroll roll changes for transfers that are valued at \$5,000 or less unless the change is in the taxpayer's favor or benefit. Such changes are considered by the assessor to be incidental and not cost efficient to administer.

Pursuant to section 531, if any property belonging on the local roll has escaped assessment, the assessor shall assess the property on discovery at its value on the lien date for the year for which it escaped assessment. In addition, section 531.9 provides that the county board of supervisors may, by ordinance, prohibit an assessor from making an escape assessment where the resulting taxes are less than the cost of assessing and collecting them so long as the amount of taxes does not exceed \$50.00. However, Kings County does not have such an ordinance. The assessor has no authority to exempt low-value escaped assessments.

If it is not cost-effective to process low-value escape assessments, the assessor should ask the board of supervisors to adopt an ordinance exempting them. Until such an ordinance is adopted, however, the assessor is required by law to enroll all escape assessments, regardless of value.

Provide taxpayers with the required *Notice of Enrollment of Escape Assessment*.

The assessor uses the tax bill as the notice of an enrolled escape assessment. Under section 534, no escape assessment shall be effective until the assessee has been personally notified of the escape assessment. In general, the notice must include, among other items, information about the

assessee's right to appeal the assessment. Section 534(c)(3) provides that, in counties where the board of supervisors has adopted a resolution pursuant to section 1605(c), the tax bill may suffice as notice to the assessee.

In Kings County, the board of supervisors has not adopted a resolution pursuant to section 1605(c). Thus, the assessor has no authority to use the tax bill as the notice of enrollment of escape assessment. Accordingly, for escape assessments, the assessor should send the required notice under section 534.

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 49 church exemption claims and 132 religious exemption claims for the 2006-07 assessment roll. The following table illustrates the number of properties and the amount of assessed value exempt under the religious and church exemptions for recent roll years:

ROLL YEAR	RELIGIOUS EXEMPTIONS	EXEMPTED VALUE	CHURCH EXEMPTIONS	EXEMPTED VALUE
2006-07	132	\$31,920,401	49	\$6,160,677
2005-06	137	\$31,179,803	47	\$4,919,026
2004-05	131	\$28,978,833	46	\$5,957,551
2003-04	128	\$28,131,534	46	\$5,497,706
2002-03	128	\$27,477,646	50	\$5,965,789

In Kings County, first-time claimants for the religious exemption file form BOE-267-S, *Religious Exemption Claim*. Once established, the assessor annually mails form BOE-267-SNT, *Religious Exemption Change in Eligibility or Termination Notice*. If a claimant fails to return form BOE-267-SNT, the assessor contacts the claimant to determine the status of the exemption.

We found the assessor's religious exemption program to be well documented and properly administered.

Pursuant to sections 255 and 256, claimants for the church exemption are required to file an annual claim form, using form BOE-262-AH, *Church Exemption*. As with the religious exemption program, we found the assessor's church exemption program to be well documented and properly administered.

Welfare Exemption

Article XIII, section 4(b) of the California Constitution authorizes the Legislature to exempt property used exclusively for religious, hospital or charitable purposes and owned or held in trust by a corporation or other entity. When the Legislature enacted section 214 to implement this constitutional provision, a fourth purpose (scientific) was added. The welfare exemption from local property taxation is available for property owned and used exclusively for qualifying religious, hospital, scientific, or charitable purposes by organizations formed and operated exclusively for those purposes. Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the Board and county assessors. The Board 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 Board; and, 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 Board. The assessor may, however, deny an exemption claim, based on non-qualifying use of the property, notwithstanding that the Board has issued an OCC or SCC to the claimant.

The following table summarizes welfare exemptions granted for recent years:

ROLL YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2006-07	162	\$139,669,270
2005-06	142	\$120,055,015
2004-05	872	\$1,161,939,005
2003-04	844	\$1,078,878,942
2002-03	743	\$783,831,181

We reviewed welfare exemption claims for a variety of property uses, including hospitals, reasonably necessary staff housing, parsonages, land conservation, and rental housing for the elderly.

The assessor makes a concerted effort to obtain an OCC from each applicant. Moreover, the assessor verifies each OCC on the Board's website. The actual use of the property is verified by field inspections. We found no deficiencies in the assessor's administration of welfare exemptions.

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 occupied by an owner who is a qualified disabled veteran (or unmarried surviving spouse) as a principal place of residence. The amount of exemption granted depends upon the amount of the veteran's income; specifically, the exemption amount is either \$100,000 or, for low income claimants, \$150,000. Both amounts are adjusted annually for inflation.

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

Our review indicates that the assessor properly processes claims for homeowners' and disabled veterans' exemptions.

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 and taxable government-owned property.

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, adjusted annually for inflation by a factor not to exceed 2 percent.

Change in Ownership

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

Discovery and Document Processing

The assessor's primary means of discovering properties that have changed ownership are the review of deeds and other documents recorded at the county recorder's office. Those recorded documents, evidencing a change in ownership, are imaged and scanned daily by the recorder's office and automatically sent to the assessor. Kings County Code, section 22-37, requires all deeds to be identified by assessor's parcel number (APN).

The number of documents received from the recorder averaged about 7,500 each year in the past five years. The following table shows the total number of recorded documents and those resulting in reappraisable transfers (changes in ownership) processed by the assessor's office during recent years:

ROLL YEAR	RECORDED DOCUMENTS	REAPPRAISABLE DOCUMENTS
2006-07	10,289	7,849
2005-06	7,875	5,722
2004-05	7,220	5,354
2003-04	6,700	4,959
2002-03	6,561	4,605

We found that the assessor has an effective deed-processing program to aid in his discovery of changes in ownership. We also found that form BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), and form BOE-502-AH, *Change of Ownership Statement* (COS), are used effectively. Over the last five years, the assessor has experienced an approximate 97 percent response rate to PCORs, and an approximate 90 percent response rate to COSs.

Section 408.1 Transfer Lists

Pursuant to section 408.1, the assessor maintains a list of transfers that occurred in the preceding two-year period, which is open to the public for inspection. Information on the transfer list is updated quarterly as required by statute. The list identifies each transfer by APN, recording date, document number, and selling price (as indicated by the documentary transfer tax). The recorded deed is the source document for all data presented on this list. The confidentiality provisions of section 481 are observed.

Section 63.1 Exclusions and Section 69.5 Base Year Value Transfers

Section 63.1 excludes from change in ownership the purchase or transfer of principal residences and the first \$1 million of other real property between each parent and their respective children. Under limited circumstances, the exclusion also applies to transfers from grandparents to grandchildren.

Section 69.5 allows a qualified homeowner over age 55 or severely and permanently disabled to transfer the base year value of a principal residence to a qualifying replacement dwelling purchased or newly constructed within the same county. We found that the assessor's staff is verifying eligibility, tracking, and processing section 63.1 and section 69.5 claims effectively.

Legal Entity Ownership Transfers (LEOP)

Section 64 provides that certain transfers of ownership interests in legal entities are changes in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 interprets and clarifies section 64, providing examples of transactions that either do or do not constitute a

change in entity control, and hence, either do or do not constitute a corresponding change in ownership of the real property owned by the entity. Discovery of these types of changes in ownership is difficult for assessors because ordinarily there is no recorded notice of the real property transfer.

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

We reviewed eight LEOP transfers and found that the assessor has properly reviewed the transfers and re-appraised the properties owned by the legal entities involved when appropriate.

Direct Enrollment

Direct enrollment is a program used in many assessors' offices to streamline the processing of uncomplicated transfers of residential properties. In Kings County, the assessor's direct enrollment program is used only to enroll qualifying single-family residences, condominiums, and small apartment properties.

The following table shows the total number of direct enrollment assessments for recent years:

ROLL YEAR	DIRECT ENROLLMENTS
2005-2006	1,964
2004-2005	2,112
2003-2004	1,482
2002-2003	1,253
2001-2002	843

In order to qualify for direct enrollment the property must meet the following criteria:

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

The appraisal staff makes a final determination based upon the defined parameters. Once accepted, the transfer is reviewed by a senior appraiser, supervising appraiser or chief appraiser, and, then it is directly enrolled.

The assessor's change in ownership program is well managed and in compliance with current property tax laws. We found no problems with the assessor's real property direct enrollment program.

New Construction

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

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

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

Discovery and Building Permits

Building permits are the assessor's primary means of discovering assessable new construction. There are six permit-issuing agencies in Kings County: the cities of Hanford, Lemoore, Corcoran, and Avenal, and two county agencies. All of these agencies forward copies of building permits and building plans to the assessor on a monthly basis. For the 2005-06 assessment year, these agencies issued a total of 3,868 permits. The assessor also discovers new construction when performing field inspections and by reviewing newspaper articles and business property statements.

Permit Processing

A permit specialist inputs the building permit data into the assessor's system. The permit specialist forwards residential permits to the appraiser assigned to that geographical area; permits involving commercial or industrial properties are forwarded to the senior appraiser.

Building permits issued for maintenance, replacement, or repairs are considered to be permits that generate no change in value. These permits cover such projects as re-roofs, electrical work, plumbing, and mechanical work. It is the policy of the Kings County Assessor to enroll all changes in value, even though the tax collector may not send out a tax bill.

The assessor also has a self-reporting program for new construction. Questionnaires are sent to all property owners who have been issued building permits for projects other than new homes. Approximately 70 percent of the questionnaires are returned to the assessor. We found that new construction valuation was properly documented both on the appraisal record and on the assessor's system.

Valuation

Section 71 requires the assessor to value construction in progress at its full value on each lien date until the date of completion, at which time the entire portion of property which is newly constructed shall be reappraised at its full value. The appraiser determines the completion status of new construction from an on-site review, notice of completion from the building department, or the taxpayer. Several cost sources are used in valuing new construction, including the Assessors' Handbook Section 531, *Residential Building Costs*, local costs, and actual reported costs for residential properties, and the *Marshall Valuation Service* for commercial and industrial properties. In the valuation of new construction, Kings County is in compliance with all applicable statutes.

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.

In Kings County, the assessor relies upon taxpayer contacts, appeals hearings, and appraiser's general knowledge of their responsible area to discover declines in value. The assessment records for all properties determined to have a full cash value lower than the factored base year value are coded to prevent the application of the annual inflation factor. There were approximately 220 properties on decline-in-value status for the 2006-07 assessment roll.

In our 2003 survey, we recommended the assessor review the assessments of residences in homogeneous areas to discover decline-in-value properties. Fieldwork for our current survey was performed from November 2006 through January 2007. At that time, Kings County was still experiencing a general rise in property values, therefore, the recommendation is considered no longer valid. However, we did find a couple of areas within the assessor's decline-in-value program that needs improvement.

RECOMMENDATION 3: Improve the decline-in-value assessment program by:
(1) reviewing the assessment of all decline-in-value properties each lien date pursuant to section 51(e), and (2) revising the notice informing assessees of an increase in a property's full value, to include the information required by section 619(c).

Review the assessment of all decline-in-value properties each lien date pursuant to section 51(e).

The assessor does not review the assessment of existing decline-in-value properties every year. Instead he annually adjusts the assessment of these properties by the inflation factor.

However, section 51 provides that once the assessor enrolls properties at a value lower than its factored base year value, the assessor is required to perform an annual review of those properties.

The assessor's failure to annually review the assessment of all decline-in-value parcels may result in some properties being inappropriately assessed at amounts other than the subject property's current market value or factored base year value.

Revise the notice, informing assessees of an increase in a property's full value, to include the information required by section 619(c).

All property owners in Kings County annually receive a *Notification of Assessment*. This includes owners of properties in decline-in-value status. The *Notification of Assessment* informs the property owners of their rights to appeal, the appeal filing dates, and the current full value of their properties.

However, the notice does not include the factored base year value of these properties as required by section 619(c). Section 619(c) provides that when a decline-in-value assessment increases from the prior year, a notice of the increase must be sent to the assessee. The notice must include the base year value of the property, compounded annually by the appropriate inflation factors, and the current market value.

By omitting this information from the notice, the assessor has failed to conform to statute, and has failed to inform the taxpayer of all the information relevant to the property's assessment as required by section 619(c).

California Land Conservation Act Properties

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

Property owners who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method that is based upon

agricultural income-producing ability (including income derived from compatible uses, e.g., hunting rights and communications facilities). Although such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value, the restricted value typically is the lowest.

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

For the 2006-07 roll, Kings County had a total of 630,984 acres under CLCA contract, including approximately 7,061 acres in nonrenewal status and 307,962 acres subject to Farmland Security Zone contracts (a more restrictive form of the CLCA contract). The total assessed value for land and living improvements was \$564,325,335, or 8.5 percent of the 2006-07 roll. The following table shows recent assessment information for CLCA properties:

ROLL YEAR	CLCA ACRES	NONRENEWAL ACRES	LAND	GROWING IMPROVEMENTS	TOTAL VALUE
2006-07	630,984	7,061	\$504,790,380	\$59,534,955	\$564,325,335
2005-06	614,705	6,524	\$501,325,598	\$45,336,587	\$546,662,185
2004-05	656,342	5,151	\$434,182,443	\$8,474,072	\$442,656,515
2003-04	643,988	5,122	\$440,365,301	\$34,699,059	\$475,064,360

Most of the rural land in Kings County is diversified, consisting of field crops, grazing, trees and vines, livestock, and poultry.

Real property appraisers are responsible for the assessment of CLCA properties within their assigned areas. The CLCA valuation program is completely automated; the variable items inputted are the capitalization rate, production, expenses, and income. The computer program calculates the restricted value and compares it with the factored base year value to determine the taxable value.

Pursuant to section 423(a)(1), to value CLCA property, the assessor must capitalize an annual income determined from market rents imputed to the land being valued, based upon rent actually received and typical rentals received in the area for similar land in similar use.

Annually, the assessor mails an *Agriculture Preserve Questionnaire* to CLCA property owners. The questionnaire requests data on rents, compatible uses, production, and other information. The assessor uses cash rents to value grazing lands, and share rents to value other CLCA properties.

In our 2003 survey, we made four recommendations for improving the assessor's CLCA program. Although the assessor has implemented two of these recommendations, the other two have not been addressed. Specifically, the assessor still fails to enroll supplemental assessments

for residential home sites on land restricted under CLCA contracts, and he does not document capitalization rates, expenses, and other factors used in the computerized CLCA valuation program. These issues are addressed below.

RECOMMENDATION 4: Revise the CLCA program by: (1) enrolling supplemental assessments for residential home sites and (2) documenting capitalization rates, expenses, and other factors used in the valuation program.

Enroll supplemental assessments for residential homesites.

We found that the assessor fails to process supplemental assessments for residential homesites on land under CLCA contract that transferred ownership. The assessor established a base year value for the homesite based on comparable sales. However, the base year value for the homesite was added to the CLCA restricted assessment, and no supplemental assessment was processed or created.

Unless restricted by section 423(e), when a property subject to a CLCA contract transfers ownership, a supplemental assessment should be made for any nonliving improvements, residences, and residential homesites. Failure to issue supplemental assessments for a homesite on otherwise restricted property results in lost property tax revenue.

Document capitalization rates, expenses, and other factors used in the valuation program.

In our 2003 survey, we found the assessor did not document any of the data used in his computerized CLCA valuation program. There was no documentation supporting the capitalization rates used for the recapture of non-living improvements, expenses used in those calculations, or the income used for dairy mounding.

We found that these problems continue to exist in our current review. There was no documentation supporting the capitalization rates used for the recapture of non-living improvements or expenses used in the CLCA value calculations.

Supporting documentation provides the basis to substantiate appraisal values to assesses and is valuable in appeals hearings.

Taxable Government-Owned Properties

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

Kings County has 83 taxable government-owned properties with a total assessed value of approximately \$10,269,173 on the 2006-07 assessment roll.

We compared parcel tax-rate area (TRA) codes with the TRA index of government-owned properties to verify whether any of the government-owned properties were located outside their district boundaries. We found no evidence of government-owned property escaping assessment. In addition, we reviewed the assessor's worksheets and calculations used in taxable government-owned property assessments and found them to be in compliance with LTA 2000/037, *Guidelines For The Assessment of Taxable Government-Owned Properties*.

We have no recommendations for the assessor's taxable government-owned property program.

Taxable Possessory Interests

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

The assessor 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 Kings County Assessor's program for discovering taxable possessory interests includes an annual polling of all government entities in the county whereby the assessor requests information from the government entities regarding any agreements they may have with private parties. Staff appraisers annually contact approximately 86 public agencies to request current information. There are currently 199 taxable possessory interests in Kings County with a total value exceeding \$16.4 million. The senior appraiser is responsible for the valuation of taxable possessory interests.

In our previous survey report, we recommended the assessor: (1) assess all taxable possessory interests at the county fairgrounds, and (2) discontinue enrolling supplemental assessments for terminations of taxable possessory interests. We did not find any taxable possessory interests at the county fairgrounds that were not identified by the assessor; therefore, that recommendation is not repeated. However, the recommendation to discontinue enrolling supplemental assessments for terminations of taxable possessory interests was not implemented. It is repeated below, along with additional suggestions for improving the taxable possessory interest assessment program.

RECOMMENDATION 5: Improve the taxable possessory interest program by:
(1) enrolling supplemental assessments for statutory changes in ownership, (2) following the guidelines set forth in Rule 21, and (3) deducting allowed expenses from gross income in the income approach.

Enroll supplemental assessments for statutory changes in ownership.

In our prior survey, we found the assessor enrolls negative supplemental assessments when taxable possessory interests terminate during the assessment year. We found that the assessor has not changed this policy.

The assessor should enroll supplemental assessments only upon a change in ownership or completion of new construction. Termination of a possessory interest does not meet the definition of a change in ownership, and therefore, is not subject to supplemental assessment. Consequently, the assessor has no authority to issue a supplemental assessment upon the termination of a taxable possessory interest.

Follow the guidelines set forth in Rule 21.

We found the assessor does not use the stated term of possession when determining the current market value of a taxable possessory interest for each lien date. It is the assessor's practice not to determine the current market value each lien date; instead, the factored base year value is enrolled until the expiration of the contract term of possession or until there is a change in ownership.

Rule 21 provides that the stated term of possession is presumed to be the reasonably anticipated term of possession unless there is clear and convincing evidence that the lessor and lessee anticipate that a different term is appropriate. Rule 21 also provides that the stated term of possession for a taxable possessory interest is the remaining period of possession.

Thus, as the stated term of possession of a taxable possessory interest declines on each lien date, it may have a material effect on the current market value of the taxable possessory interest. For this reason, the appraiser must estimate the market value of a taxable possessory interest on the lien date based on the remaining term of the contract, compare this value with the factored base year value, and enroll the lesser of the two.

Failing to use a declining term when valuing taxable possessory interests may overstate the taxable value of the taxable possessory interest.

Deduct allowed expenses from gross income in the income approach.

The assessor deducts expenses only when using the discounted cash flow method to value a taxable possessory interest. When using the direct income method, operating expenses are not deducted from the gross income before capitalizing the net income.

Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests*, Chapter 3, provides that allowed expenses paid by the public owner should be deducted from the estimated economic rent.

A public owner will always incur some management expense with each taxable possessory interest. Lease agreements may require the public owner to pay for insurance, maintenance, or utilities. By estimating the fair market value using gross income rather than net income to the lessor, the assessor is inflating this value indicator.

Leasehold Improvements

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

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

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

We found the assessor properly classifies reported structural improvements on the secured roll and fixtures on the unsecured roll. The assessor assigns responsibility for the assessment of leasehold improvements classified as structures to the real property staff. Leasehold improvements classified as fixtures are assessed by the business property staff.

The most common methods of discovery for leasehold improvements are the BPS and building permits. Schedule B of the BPS is a useful source for discovering leasehold improvements. It is the practice of the assessor to refer expenditures reported on schedule B to the real property staff for review. We found no problems with the assessor's leasehold improvement program.

Water Company Properties

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

Since there are no regulated private water companies or taxable government-owned systems in Kings County, we will discuss only the assessment of property owned by mutual water companies.

Mutual Water Companies

A mutual water company is a private association created for the purpose of providing water at cost primarily for its members or stockholders. Usually, the individual ownership interests in a mutual water company are appurtenant to individual parcels of land eligible for water service from the company. In such cases, little value should be assigned to the land, improvement, and delivery system owned by the mutual water company because the values of these properties are reflected in the assessments of the member or stockholder parcels.

Kings County has two mutual water companies on the 2005-06 assessment roll. We found that the value of the mutual water companies was properly reflected in the value of the individual parcels served by the companies.

Pipeline Rights-of-Way

Intercounty pipeline rights-of-way were assessed by the Board from approximately 1982 until 1993, when an appellate court ruled that such assessments were outside the Board's constitutional authority.⁴ The court ruled that while the pipelines themselves are properly assessed by the Board, 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, governing the valuation of intercounty pipeline lands and rights-of-way.

The assessor has six right-of-way pipeline assessments on the 2006-2007 roll with an assessed value of \$2,413,232. There are no multiple pipeline right-of-way assessments in the county. The assessor maintains a separate base year value for each separate right-of-way interest and uses the appropriate density classification and values per mile found in section 401.10(a).

We found that the assessor correctly values rights-of-way within Kings County and have no recommendations.

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

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

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

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

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

Audits

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

The following table shows the total number of audits completed over recent years by the Kings County Assessor:

DESCRIPTION	2005-06	2004-05	2003-04
AUDIT WORKLOAD			
MANDATORY	40	32	33
NON-MANDATORY	0	2	0
TOTAL AUDITS SCHEDULED	40	34	33
UNFINISHED FROM PRIOR YEAR	3	2	2
TOTAL AUDIT WORKLOAD	43	36	35
AUDITS COMPLETED			
MANDATORY	29	31	33
NON MANDATORY	0	2	0
TOTAL AUDITS COMPLETED	29	33	33
AUDITS CARRIED FORWARD	14	3	2

Mandatory Audits

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

There are approximately 133 accounts in Kings County that are subject to mandatory audit requirements. Each year, the assessor generates a computer listing of accounts attaining values of \$400,000 or more for four consecutive years, forming the basis of the mandatory audit list. To remain current, the assessor must audit approximately 33 accounts each year.

In our 2003 survey, we recommended that the assessor bring the mandatory audit program to current status and obtain waivers of the statute of limitations for mandatory audits that would not be completed timely. This recommendation is repeated in our current survey.

RECOMMENDATION 6: Revise the audit assessment program by: (1) timely auditing the books and records of professions, trades, and businesses pursuant to section 469, and (2) obtaining waivers of the statute of limitations pursuant to section 532.1 when a mandatory audit will not be completed timely.

Timely audit the books and records of professions, trades, and businesses pursuant to section 469.

We found that the assessor is behind in the completion of mandatory audits as shown in the table above. The mandatory audit program verifies the reporting of the largest business property accounts and forestalls any potential large assessment errors. The further removed the audit is

from the year under audit, the more difficult it can be to obtain the necessary records to accurately audit the account.

Obtain waivers of the statute of limitations pursuant to section 532.1 when a mandatory audit will not be completed timely.

We found the assessor did not request waivers for all mandatory audit accounts that were not going to be completed prior to the expiration of the four-year statute of limitations.

Section 532 provides that an escape assessment found during an audit must be enrolled within four years after July 1 of the assessment year in which the property escaped assessment or was underassessed. If the assessor cannot complete the mandatory audit within the prescribed time limit, the assessor may ask the taxpayer to grant an extension of time. This can be accomplished by requesting that the taxpayer sign a waiver of the statute of limitations, as authorized by section 532.1. This waiver protects the taxpayer if there was an overassessment and allows the assessor to enroll an escape assessment if a reporting deficiency is discovered.

We recommend that the assessor request that the taxpayers sign waivers of the statute of limitations in those situations where mandatory audits will not be completed on time.

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 asset totals to the general ledger and financial statements, review of asset invoices, reconciliation between reported and audited amounts, an analysis of expense accounts, and an analysis of depreciation and obsolescence factors that may affect the value of the business property.

We found that the assessor performs change in control (legal entity ownership) reviews, verifies leased equipment, enrolls construction in progress, accounts for supplies, and properly classifies equipment. In all cases, mandatory audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation.

Business Property Statement Processing

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

The assessor recently processed business property statements for the 2006-2007 assessment roll as shown in the table below:

CATEGORY	TOTAL COUNT
General Business	2,401
Agriculture	751
Apartments	67
Leased Equipment	322
Total	3,541

Data submitted on the business property statement serves as the basis for the subsequent business property assessments. In addition, business property statements provide important information regarding changes in business ownership, location of the property, and the business start date at the current location.

Discovery

The discovery of taxable property is an essential function of the county assessor. It is a difficult but necessary task to maintain accurate, up-to-date listings of businesses. The assessor has an effective discovery program. Taxpayer self-reporting is the principal means of discovering assessable property. Other means of discovery include business permits, fictitious business name filings, newspaper articles and advertisements, telephone directories, board notifications, and referrals from other counties. We found that the assessor employs effective methods for discovering business personal property.

We have no recommendations for the assessor's business property statement program.

Business Equipment Valuation

Commercial, Industrial, and Agricultural

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

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

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

In our 2003 survey report, we recommended the assessor discontinue the use of limiting valuation factors to an arbitrary level.

The assessor has complied with our recommendation and is now using the factors provided by the California Assessors' Association (CAA). The CAA price indices parallel the indices published in AH 581.

We found no problems in the assessor's equipment valuation program.

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 to purchase), and double or escape assessments resulting from lessor and lessee reporting. These issues are discussed in detail in Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*.

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

The assessor compares all lessees' property statements to the lessors' property statements to ensure that all leased equipment is enrolled. If lessors neglect to account for leased property reported by their lessees, the assessor sends those lessors property statements requesting the necessary information.

We found the leased equipment program is well managed, with staff doing an excellent job in the discovery, processing, tracking, and cross-checking of leased equipment information.

Manufactured Homes

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

For the 2006-07 roll, there were 1,157 manufactured homes in Kings County with a total roll value of \$21,532,810.

The assessor learns of sales, new installations, and voluntary conversions of manufactured homes through periodic State Department of Housing and Community Development listings, dealer reports of sale, tax collector tax clearance certificates, and building permits.

Pursuant to section 5803, in determining the full cash value of a manufactured home on rented or leased land, the assessor must take into consideration sales prices listed in recognized value guides. Recognized value guides include, but are not limited to, the *National Automotive Dealers Association Manufactured Housing Appraisal Guide (NADA)* and Board cost factors issued pursuant to section 401.5.

A technical support aide is responsible for collecting and processing data related to changes in the ownership or location of manufactured homes. The resulting worksheets and documents are forwarded to a real property appraiser for valuation. Each appraiser in the office is responsible for valuing manufactured homes located within the appraiser's assigned work area. The assessor accounts for the value of accessories, such as awnings, porches, and skirting, as well as the overall general condition of the manufactured home when estimating the value.

We reviewed a number of manufactured home assessments, including those following transfers in ownership and new installations. Overall, the assessor has an effective program for the discovery and assessment of manufactured homes. However, we found one problem with this program.

RECOMMENDATION 7: Enroll supplemental assessments for changes in ownership and new construction of manufactured homes.

Over the last five years, the assessor has valued all manufactured homes that have changed ownership. However, we found that the assessor did not issue supplemental assessments for these events.

Section 75.5 specifically requires that the assessor enroll supplemental assessments on manufactured homes whenever there is a change in ownership or new construction. Failure to enroll supplemental assessments for manufactured homes, when appropriate, results in lost property tax revenue.

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 and certificated aircraft is discussed below). Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines prescribed by the Board. Section 5364 requires the Board to establish such standards. On January 10, 1997, the Board 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 King's County Assessor's Office assessed 109 general aircraft on the 2006-07 assessment roll with a total value of approximately \$9,293,000. A management analyst (a certificated position), is responsible for administering the assessor's aircraft program. The assessor discovers

general aircraft through the airport hangar reports, referrals from other counties, Federal Aviation Administration reports, and physical inspections.

The assessor mails a *Notice of Proposed Assessment* annually to the owner of each aircraft in the county. This notice lists the aircraft and the proposed assessment, and allows the aircraft owner the opportunity to respond with any changes, modifications, or hours since the last major overhaul. If there is no response, the assessor enrolls the proposed assessment.

RECOMMENDATION 8: Annually appraise aircraft at market value.

When an aircraft is discovered to have situs in Kings County, the assessor mails the aircraft owner an aircraft owner's report. Information requested on this report includes: type and year of aircraft, purchase price, engine hours, and additional equipment. Staff typically uses the value listed in the *Bluebook* as the initial enrolled value.

In subsequent years, the assessor first develops an estimated value of the aircraft based on information in his possession. Then he sends a notice to the taxpayer stating the estimated value and informing the taxpayer that this estimated value will be enrolled unless the taxpayer provides additional information. This procedure depends on the taxpayer to provide corrected information.

In many cases, we found that no adjustment was made for the condition of the aircraft or additional equipment, and that very few aircraft values had been adjusted for engine hours. The value for any given aircraft is likely to be substantially different from the value suggested by the value guide depending on the overall condition, the equipment installed, the hours since a major overhaul, and the total engine hours. Adjustments for these items must be made to the indicated book prices to determine the correct market value. The values of newer aircraft are most affected by the presence or lack of optional equipment, while the values of older aircraft are influenced more by the condition of the aircraft.

A better approach would be to send an annual aircraft property statement to all owners and request updated information on the aircraft. If the taxpayer provides the information, then the assessor has a signed statement from the taxpayer concerning the condition of the aircraft. If the taxpayer does not return the statement, then the assessor can apply the noncompliance penalty.

We recommend the assessor annually appraise aircraft at market value.

Historical Aircraft

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

The historical aircraft exemption is not automatic. Each year, the owner of a historical aircraft must submit an affidavit on or before 5:00 p.m., February 15, paying a filing fee of \$35 upon the

initial application for exemption. Along with these requirements, aircraft of historical significance are exempt only if the following conditions are met: (1) the assessee is an individual owner who does not hold the aircraft primarily for purposes of sale, (2) the assessee does not use the aircraft for commercial purposes or general transportation, and, (3) the aircraft was available for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which exemption is claimed.

The assessor granted five historical aircraft exemptions for the 2006-07 assessment roll with a total value of more than \$144,200. The assessor properly obtained signed affidavits for the historical aircraft exemption pursuant to section 220.5(c). We found the assessor to be in full compliance with the historical aircraft filing procedures.

Vessels

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

The King's County Assessor uses all these sources, including questionnaires sent to the vessel owners, to discover assessable vessels within Kings County.

All registered vessel owners are sent a county boat and motor form on January 1 of each year; most vessel owners return the form to the assessor by April 1. Because the assessor uses a locally-developed vessel reporting form, no penalty is applied for late-filed or non-filed vessel statements. Vessels are valued using 100% of the value derived from the current *NADA's Marine Appraisal Guide*, and sales tax is added to determine the current roll value.

The following chart summarizes the assessor's vessel assessment data from recent years:

ROLL YEAR	PLEASURE VESSELS	ASSESSED VALUE
2006-07	2,513	\$7,593,370
2005-06	2,617	\$6,729,670
2004-05	2,537	\$6,377,060
2003-04	2,463	\$5,214,854
2002-03	2,439	\$4,916,210

We have no recommendations for the assessor's vessel valuation program.

APPENDIXES

A. County-Assessed Properties Division Survey Group

Kings County

Chief

Dean Kinnee

Survey Program Director:

Arnold Fong

Principal Property Appraiser

Survey Team Supervisor:

Jody Henning

Supervising Property Appraiser

Survey Team Leader:

Carlos Zaragoza

Senior Auditor-Appraiser

Survey Team:

Michael Ash

Associate Property Appraiser

Robert Donay

Associate Property Appraiser

Nick Winters

Associate Property Appraiser

Alan Dannen

Associate Property Auditor-Appraiser

Ella Chin

Tax Technician I

B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

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

15641. Audit of records; appraisal data not public.

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

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

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

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

15642. Research by board employees.

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

15643. When surveys to be made.

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

15644. Recommendations by board.

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

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

(a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

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

The board may, for good cause, extend the period for filing the response.

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

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

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

Revenue and Taxation Code

75.60. Allocation for administration.

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

(b) For purposes of this section:

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

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

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

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

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

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

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

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

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

Rule 371. Significant assessment problems.

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

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

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

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

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

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

ASSESSOR'S RESPONSE TO BOARD'S FINDINGS

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

The Kings County Assessor's response begins on the next page. The Board has no comments on the response.



KEN BAIRD

KINGS COUNTY GOVERNMENT CENTER
1400 WEST LACEY BLVD
HANFORD, CALIFORNIA 93230-5905

ASSESSOR - CLERK - RECORDER REGISTRAR OF VOTERS

PHONE (559) 582-3211 EXT. 2486
FAX - ASSESSOR (559) 582-2794
FAX - CLERK/RECORDER (559) 582-6639
FAX - ELECTIONS (559) 585-8453

April 11, 2008

RECEIVED

APR 24 2008

County-Assessed Properties Division
State Board of Equalization

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

Dear Mr. Kinnee:

Pursuant to section 15645 of the Government Code I am submitting my response to the Board of Equalization Assessment Practices Survey dated April 2008. Please include this letter and the attached responses to the final survey.

I would like to thank Jody Henning and her survey team for the thorough and professional manner in which they conducted themselves during the survey. I greatly appreciate this process and feel that I and my staff have significantly benefited from the open and frank conversations we enjoyed.

I am particularly pleased with the reduction of recommendations from 31 in the 2003 survey to 8 in the current one. This reduction along with your recognition of our training program, exemptions processing, & business property processes are largely due to Mr. Mike Loya, Chief Appraiser and Datha Ivie, Supervising Appraisal Aide. As a team they daily represent the best in County Government and I commend them for their hard work and dedication to the citizens of Kings County.

Finally I am fortunate to have a staff who's mission is to provide the best service possible to the citizens of Kings County. It was gratifying to see the respect shown to them by your survey team. I believe this survey was a benefit to our office and that we all learned as much or more from the process as we have from the final report.

Sincerely,

Ken Baird
Kings County Assessor, Clerk/Recorder
Registrar of Voters



KEN BAIRD

KINGS COUNTY GOVERNMENT CENTER
1400 WEST LACEY BLVD
HANFORD, CALIFORNIA 93230-5905

ASSESSOR - CLERK - RECORDER REGISTRAR OF VOTERS

PHONE (559) 582-3211 EXT. 2486
FAX - ASSESSOR (559) 582-2794
FAX - CLERK/RECORDER (559) 582-6639
FAX - ELECTIONS (559) 585-8453

Recommendation 1: Revise disaster relief procedures by: (1) requesting the board of supervisors to revise the county's disaster relief ordinance to reflect the new requirement of section 170, and (2) revising the Notice of Proposed Reassessment to conform to the provisions of section 170(c).

We agree with this recommendation and are in the process of revising the disaster relief ordinance and notice.

Recommendation 2: Improve assessment roll change procedures by: (1) enrolling all roll changes, and (2) providing taxpayers with the required Notice of Enrollment of Escaped Assessment.

(1) We agree with this recommendation and are in the process of drafting a county ordinance pursuant to Section 531.9 of the Revenue and Taxation Code.

(2) When an escaped assessment is pending enrollment the assessor notifies the tax payer, ten days prior to enrollment, by sending a Notice of Proposed Escape Assessment pursuant to Revenue and Taxation Codes Section 531.8. In the past we have let the tax bill serve as the notice although the board of supervisors has not adopted a resolution pursuant to section 1605(c). We are researching the possibility of including the required notice with the tax bill to reduce possible confusion to the tax payer.

Recommendation 3: Improve the decline-in-value assessment program by: (1) reviewing the assessment of all decline-in-value properties each lien date pursuant to section 51(e), and (2) revising the notice, informing Assesseees of an increase in a property's full value, to include the information required by section 619(c).

(1) We agree all Section 51 enrolled properties should be reviewed and have reprioritized our workload to insure these properties are reviewed annually.

(2) Our system does not currently provide an automated way to process value notices for Section 51 properties. We



KEN BAIRD

KINGS COUNTY GOVERNMENT CENTER
1400 WEST LACEY BLVD
HANFORD, CALIFORNIA 93230-5905

ASSESSOR - CLERK - RECORDER REGISTRAR OF VOTERS

PHONE (559) 582-3211 EXT. 2486
(559) 582-2794
FAX - CLERK/RECORDER (559) 582-6639
FAX - ELECTIONS (559) 585-8453

are currently developing a data base system that will generate the required notice as well as track each Section 51 property to insure that it is properly valued and noticed each year.

Recommendation 4:

Revise the CLCA program by (1) enrolling supplemental assessments for residential home sites and (2) documenting capitalization rates, expenses, and other factors used in the valuation program.

- (1) We agree with this recommendation and have been enrolling supplemental assessments for residential home sites on CLCA properties since January of 2008.
- (2) We agree with this recommendation and will implement the recommended documentation.

Recommendation 5:

Improve the taxable possessory interest program by: (1) enrolling supplemental assessments for statutory changes in ownership, (2) following the guidelines set forth in Rule 21, and (3) deducting allowed expenses from gross income in the income approach.

- (1) We respectfully disagree with this finding and believe that the assessment of a right of possession that no longer exists is contrary to all other standard assessment practices.
- (2) We agree and have already implemented this change.
- (3) We agree and have already implemented this change.

Recommendation 6:

Revise the audit assessment program by: (1) timely auditing the books and records of professions, trades, and businesses pursuant to section 469, and (2) obtaining waivers of the statute of limitations pursuant to section 532.1 when a mandatory audit will not be completed timely.



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- (1) The failure to complete the mandatory audits was because we lost our only auditor position when he took a better paying position with the State. Subsequently we were approved for two auditor positions and should once again be able to complete all mandatory audits.
- (2) While we believe that the additional auditor position will result in completion of all mandatory audits. We will obtain waivers should we not be able to complete all audits timely.

Recommendation 7:

Enroll supplemental assessment for changes in ownership and new construction of manufactured homes.

Our current automated system which was originally initiated in 1984 is not capable of generating supplemental assessments for manufactured homes without a substantial rewrite of the system. We are exploring way to address this issue procedurally as time and resources allow.

Recommendation 8:

Annually appraise aircraft at market value.

The notice sent by the Assessor states the proposed value to be enrolled. This value is based on the bluebook value of a typical aircraft of the make and model owned. The notice then provides the owner with an opportunity to provide additional information such as modification of the motor, hull, or frame, and engine hours since last major overhaul. This information is reviewed and may result in the enrollment of a revised value based on the information provided. We will review our notice of proposed assessment to determine if we need to request more specific information from the owner.